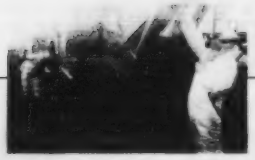
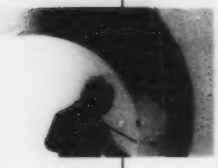
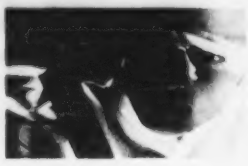
BDC



2001 annual report





BDC ▶ INNOVATING PRODUCTIVITY

THE PULSE OF CANADIAN SMALL BUSINESS

Business Development Bank of Canada
Banque de développement du Canada

Canada

Events that made a difference

>> Small Business Week®, which recognizes the important contribution of the small business community to the Canadian economy, was an outstanding success in 2000. "CyberBiz: Innovations on the Leading Edge!" was the week's theme, acknowledging the Bank's increasing commitment to helping Canadians reap the benefits of the new economy. Some 40,000 people attended and participated in more than 400 different activities.

>> The Week also celebrated the achievements of entrepreneurs across the country through BDC's Young Entrepreneur Awards, which recognize the outstanding contributions of young business people. As is the tradition, winners were matched with a well-known business leader in their province or territory, who became a mentor for one year. The 2000 Gala was held in the Ottawa region and a Western Canada launch took place in Vancouver.

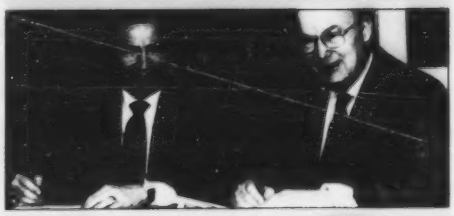
>> BDC also sponsors Info-Fairs throughout the year that are set up by Industry Canada. These events feature seminars and conferences that help small businesses share information and discuss pertinent issues, such as financing, e-business and knowledge-based skills training. Info-Fairs also inform small businesses about federal programs and services that are available at each stage of their growth.

Strategic alliances

>> In a project initiated by Florence Mariage, Manager, Major Accounts at BDC, the Bank forged a strategic alliance with the Laurentian Bank of Canada. The goal was to better meet the needs of Canadian small businesses by giving them access to a full range of financial products and consulting services. A $100 million fund was pooled to support dynamic and growing businesses operating in the manufacturing sector, as well as the telecommunications, biotechnology and information technology sectors.

>> BDC and the Farm Credit Corporation (FCC) signed a partnership agreement to help agricultural businesses and farm-related companies grow and prosper. This partnership gives small businesses access to the seamless delivery of coordinated services from both Crown financial institutions. Today, FCC provides financing to primary agricultural and farm-related businesses.

>> BDC and Canada Economic Development (CED) are working in partnership to provide 200 Quebec small businesses access to the Bank's new e-strat program, designed to help entrepreneurs succeed in the e-business era. Offered by BDC Consulting Group, e-strat helps small businesses identify market opportunities and growth potential generated by the internet and respond with concrete strategies and action plans.



101-05707/

OUR

The Business Development Bank of Canada is a financial institution wholly owned by the Government of Canada. BDC plays a leadership role in delivering financial and consulting services to Canadian small business, with a particular focus on the technology and export sectors of the economy.

BDC's debt obligations are issued to the public and to private sector institutions and are secured by the Government of Canada.

OUR

Make a unique and significant contribution to the success of dynamic and innovative entrepreneurship for the benefit of all Canadians.

OUR

- Financial services (term loans)
- Subordinate financing
- Venture capital
- Consulting services
- BDC Connex (financial products online)

BDC. Innovating productivity.

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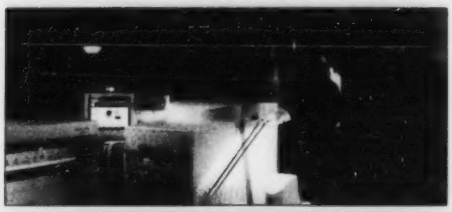
Entrepreneurs reinvent the notion of productivity ▼



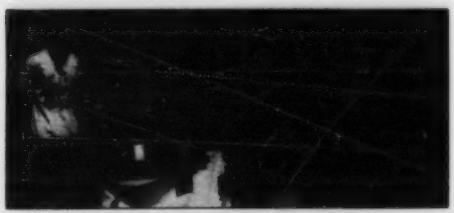
>> Hull, Quebec-based i4design inc. develops interactive solutions and applications for public, private and transactional Web sites. The company's unique work methodology, Web Site Engineering, is the logical evolution of traditional Web site development, offering clients turnkey solutions, from strategic planning to project execution. BDC Innovation Financing was vital to developing a groundbreaking application, the DCP System™, that allows users to publish information on their own Web sites without technical knowledge. In the rapidly changing e-business world, i4design inc. has relied on its capacity to adapt to market demands and drive productivity.

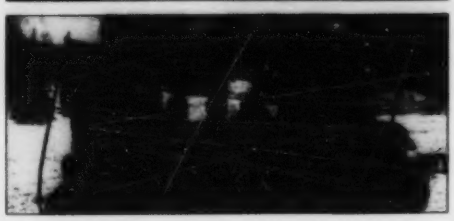
>> Mississauga, Ontario-based Packall Packaging Inc. specializes in the manufacture of film used for flexible packaging, largely in the meat and dairy product industry. To be able to meet new customer demands and produce different types of film, the company innovated by upgrading its equipment with a BDC term loan. In the past two years, Packall Packaging Inc. has seen over 30 percent revenue growth because of new export business in the U.S. Today, the firm takes pride in the fact that it can deliver to customers quickly and at the same time maintain total quality.

>> Calgary, Alberta-based SUBNET Solutions Inc. specializes in communication protocols and secure remote networking solutions for the power utility sector and provides leading-edge software products and comprehensive engineering services. A BDC term loan was used to purchase new equipment to accommodate exponential growth. Last year, the company released Substation Explorer™, a powerful software package that allows remote access to data within an electrical substation, and improves productivity by reducing operating and maintenance costs.

Reaching out to the community ▼

>> BDC continues its active involvement in the community through its "Growing with You" program which promotes local teams and sporting events for young people across the country. The Bank supports local sports because they promote its core values: hard work, perseverance, competitiveness and the determination to excel. What's more, employees throughout the company give their time and energy to making this program a success.





We're there to boost productivity and growth

>> At BDC, we've taken the pulse of Canadian small businesses and the results are clear. Today, entrepreneurs are finding innovative ways to be more productive, by exploring export markets, maximizing use of the internet and motivating employees to excel. Whether it's e-business, manufacturing or tourism, small businesses in every sector are showing that productivity is really about thinking smarter, and reinventing what they do and how they do it, to grow bigger and better in the new economy.

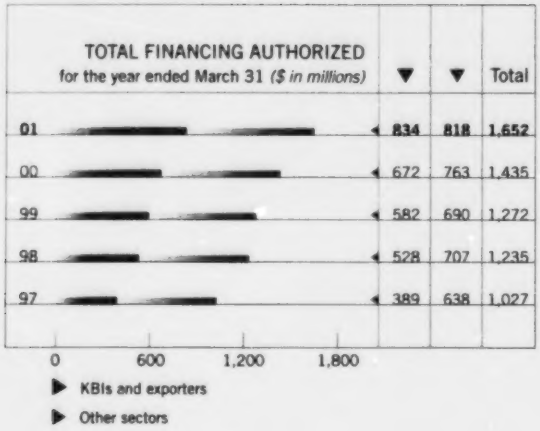
We're there with customized solutions

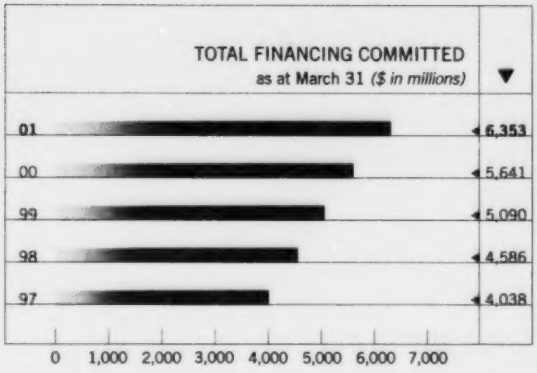
>> BDC is responding to small business needs by helping clients find new ways to manage business, improve quality and create sustainable value for customers. Throughout Canada, companies rely on the Bank's flexible financing solutions, from term loans to venture capital, to achieve leadership in their fields. To maintain their business momentum in the global race, entrepreneurs also come to us for a full range of management consulting services, from strategic planning to export advice.

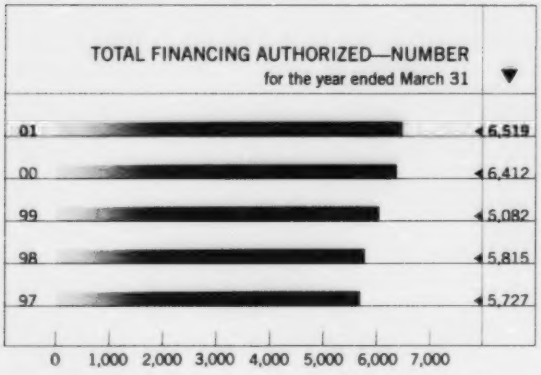
We're there to foster innovation

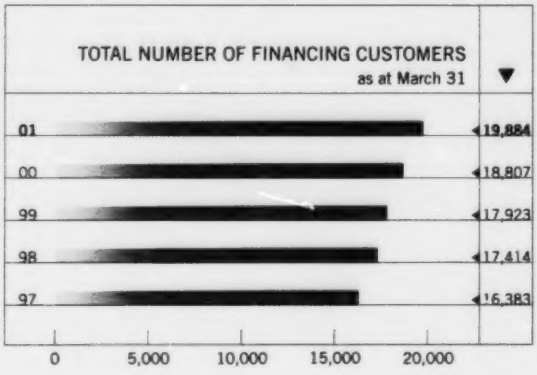
>> BDC understands the true meaning of entrepreneurial spirit—to take ideas and turn them into business opportunities. Whether that involves transforming products and services, tapping into employee creativity or bringing product breakthroughs to market, our financial solutions and expertise help thousands of companies innovate and develop their full potential in a fiercely competitive market.

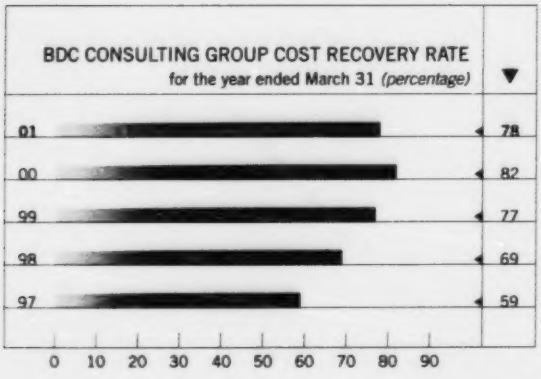
HIGHLIGHTS

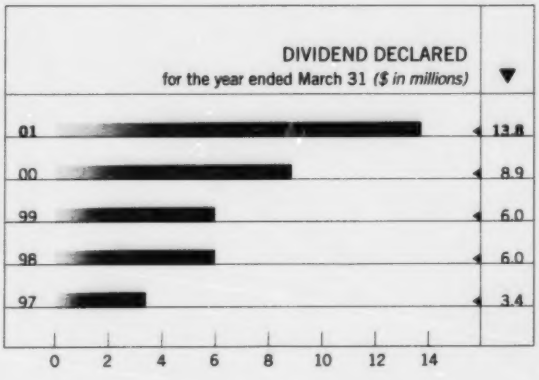

TOTAL FINANCING AUTHORIZED
for the year ended March 31 ($ in millions)
Total
01 834 818 1,652
00 672 763 1,435
99 582 690 1,272
98 528 707 1,235
97 389 638 1,027
0 600 1,200 1,800
KBIs and exporters
Other sectors

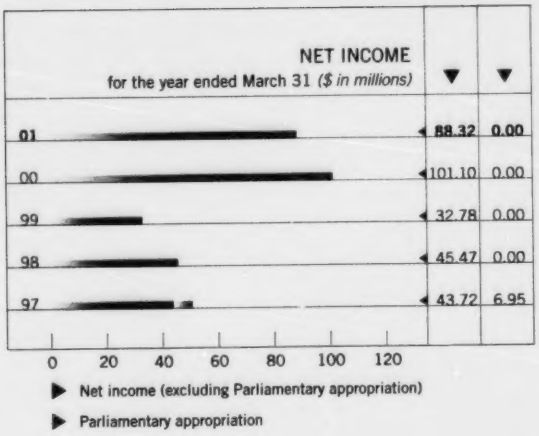

TOTAL FINANCING COMMITTED
as at March 31 ($ in millions)
01 6,353
00 5,641
99 5,090
98 4,586
97 4,038
0 1,000 2,000 3,000 4,000 5,000 6,000 7,000

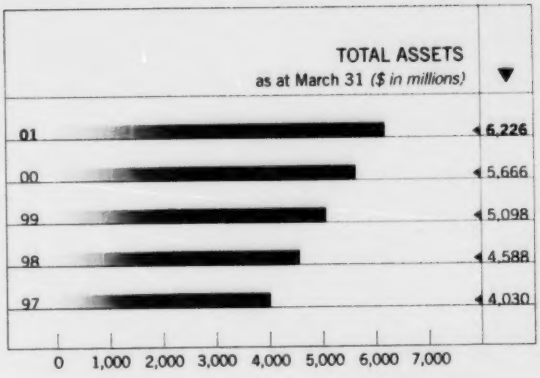

TOTAL FINANCING AUTHORIZED—NUMBER
for the year ended March 31
01 6,519
00 6,412
99 5,082
98 5,815
97 5,727
0 1,000 2,000 3,000 4,000 5,000 6,000 7,000

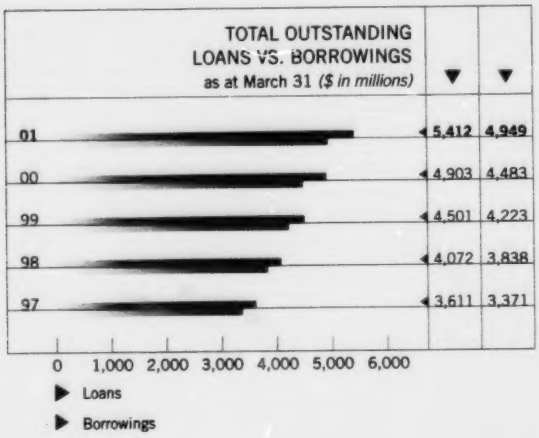

TOTAL NUMBER OF FINANCING CUSTOMERS
as at March 31
01 19,884
00 18,807
99 17,923
98 17,414
97 16,383
0 5,000 10,000 15,000 20,000

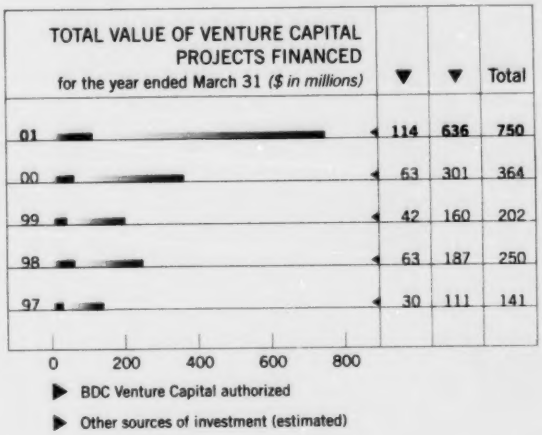

BDC CONSULTING GROUP COST RECOVERY RATE
for the year ended March 31 (percentage)
01 78
00 82
99 77
98 69
97 59
0 10 20 30 40 50 60 70 80 90

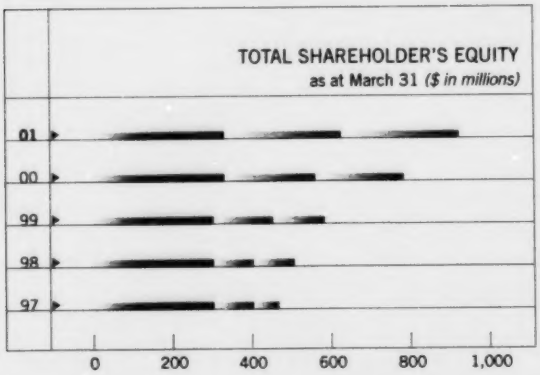

DIVIDEND DECLARED
for the year ended March 31 ($ in millions)
01 13.8
00 8.9
99 6.0
98 6.0
97 3.4
0 2 4 6 8 10 12 14



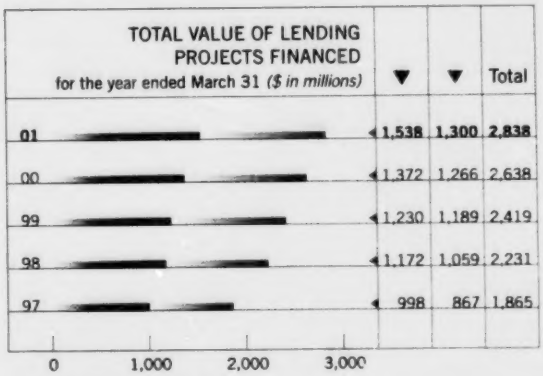






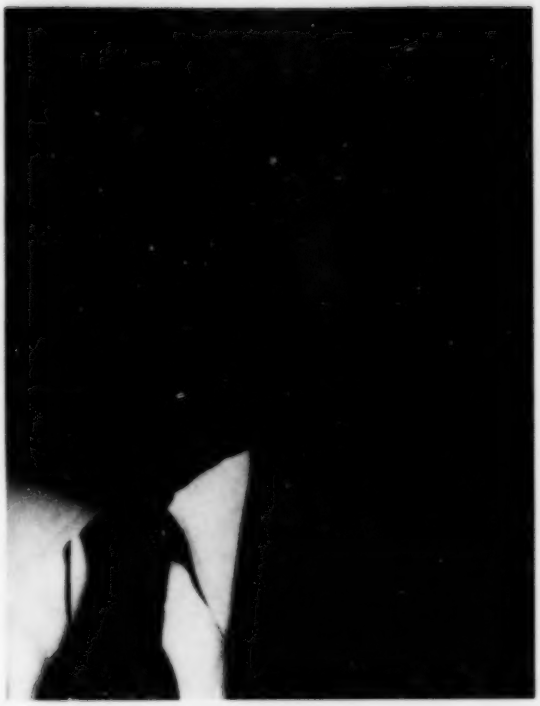


	Common shares	Preferred shares	Retained earnings	Total shareholder's equity
01	**331.2**	**295.0**	**297.1**	**923.3**
00	331.2	230.0	222.6	783.8
99	303.4	150.0	130.4	583.8
98	303.4	100.0	103.7	507.1
97	303.4	100.0	64.2	467.6



CHAIRMAN'S [redacted]

Joining the Business Development Bank last year as Chairman of the Board was a great pleasure, especially at such an exciting time for small business in Canada. Small businesses are experiencing rapid growth, enhancing their export capabilities, investing in innovation initiatives and improving their productivity to succeed against global competition.



>> BDC is an organization dedicated to working with other financial institutions to offer complete business solutions to entrepreneurs in many industry sectors, and I am delighted to be a part of it.

>> The Bank's results for fiscal 2001 were very satisfactory. The overall performance was in line with its global corporate objectives and both management and employees are to be commended for their contribution to these strong results.

>> Net income of $88.3 million was the second highest posted by the Bank after last year's record level. The 12 percent increase in total lending authorized to over $1.5 billion was also a noteworthy achievement. Furthermore, the Bank declared a dividend of $13.8 million to the Government of Canada, compared to $8.9 million in fiscal 2000. This was the fifth consecutive annual dividend payment.

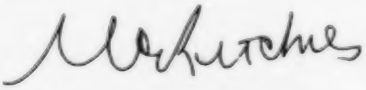
>> BDC is a complementary lender to commercial financial institutions, also offering venture capital and consulting services, and it works closely with its private sector counterparts, whose referrals represent a high percentage of its business. In addition, the Bank is active in the Aboriginal market and in supporting women entrepreneurs. In a nutshell, BDC fulfills a practical and useful purpose in the Canadian financial landscape—and acquits its responsibilities to both its shareholder and principal stakeholders in admirable fashion.

>> The Bank's significant contribution to knowledge-based industries (KBIs) and exporters over the past five years reflects the mandate it was given by Parliament. BDC is comfortable with its role and believes that its current mission is appropriate in the context of globalization and the emergence of the new economy. The very high level of satisfaction expressed by the Bank's clients in its annual surveys—88 percent for the last two years—is testimony to the pertinence and adequacy of the current mandate.

>> As Chairman, my role is to ensure the Bank meets and exceeds its objectives in relation to small business in Canada and that it adheres strictly to its corporate governance guidelines. Effective corporate governance helps BDC achieve its business objectives and satisfy the rigorous accountability requirements of Crown corporations. The Board of Directors, which represents the regions of Canada, small business and the federal government, is committed to strict management processes based on sound business principles. A committee of the Board of Directors reviews the Bank's corporate governance practices on a regular basis to ensure they reflect best current practices and that they provide an adequate framework for management and employees in the fulfillment of their responsibilities. The Governance Committee, with the support of the Board of Directors, will continue to refine policies and guidelines to ensure they keep pace with evolving needs.

>> On a more personal note, I have always viewed BDC as an institution that plays an important complementary role in the Canadian financial system. My short time as Chairman has not only confirmed this view but also allowed me to meet some of the dedicated men and women who make the Bank such an effective institution.

>> I take this opportunity to thank our Board of Directors and its committees for their thoroughness. A particular word of appreciation is extended to Gregory Sorbara who stepped down from his position as Director in April 2001. I also wish to acknowledge the contribution of Michel Vennat, President and Chief Executive Officer, as well as that of all BDC personnel for their commitment to the success of small business across our country.



Cedric E. Ritchie
Chairman of the Board

PRESIDENT'S [redacted]

The Business Development Bank of Canada excelled, once again, in its efforts to support the start-up, development and expansion of Canadian small businesses and to assist them in strategic initiatives linked to innovation and productivity in fiscal 2001. Progress was made in all areas of activity, with some showing exceptional results. We increased the volume of lending, venture capital investments and consulting services in every region, particularly in Ontario and Western Canada. We made significant gains in our customer base right across the country, bringing the total number of clients close to the 20,000 mark.

>> Key to our success was the commitment of our 1,200 employees, dedicated to serving small and medium sized enterprises from coast to coast. Our results reflect the healthy Canadian economy, particularly the vitality of the small business sector. Despite a modest slowdown towards the end of 2000 and in early 2001, the Canadian economy remains one of the most robust among G7 countries. This success is attributable, in part, to business investment, mainly for the acquisition of information and communication technologies, as well as leading-edge industrial equipment. Vigorous export activity—a direct result of improvements in productivity and competitiveness—is yet another important success factor. As a Crown financial institution that works to stimulate innovation and exporting, BDC is proud of the contribution it has made.

Results meet expectations ▼

>> For the fiscal year ended March 31, 2001, BDC's total lending commitment to Canadian small business increased by 11 percent to $6.1 billion. This is a new high for the Bank. During the course of the year, over $1.5 billion in new lending was authorized. The Bank's net income was $88.3 million, representing 12.6 percent return on common equity. The dividend declared to its shareholder, the Government of Canada, amounted to $13.8 million.

>> BDC continued to offer a wide range of flexible financial products to businesses in all industry sectors, while targeting certain strategic areas or niches. Total financing authorized to knowledge-based industries and exporters totaled $834 million in fiscal 2001, a 24 percent increase over the previous year, while their share of total financing, including venture capital investments, rose from 47 percent to 50 percent. The share of loans under $100,000 was 55 percent of total lending. In addition, the Bank continued to support women, Aboriginal groups and young entrepreneurs.

>> It was another record year for the Investment Group: 71 venture capital investments were authorized, for a total of $114 million, compared to 62 investments and $63 million in fiscal 2000. All of these investments went to new economy businesses, mainly in the biotechnology, medical/health, electronics, communications and information technology sectors. In addition, most of these businesses were in the start-up phase, where the level of risk is higher. At the end of fiscal 2001, the total commitment of venture capital investments was $296 million, a 52 percent increase compared to the previous year.

>> Guided by its mission to develop and offer practical and affordable consulting services, BDC Consulting Group saw an increase in fiscal 2001 in the number of small business consulting projects in line with the Bank's mandate. In fact, 5,660 consulting projects for small businesses were recorded this year, compared to 5,009 last year. The Group's core activities focused on four strategic areas: growth, quality, exports and e-business.

PRESIDENT'S

>> Net income for fiscal 2001 totaled $88.3 million, compared to $101.1 million the previous year. The contribution from venture capital was $56.2 million, compared to a record $80.0 million in 2000. Income from venture capital is subject to fluctuations based on market conditions and the degree of investee maturity.

Customer satisfaction ▼

>> Customer service has always been a priority for BDC. We value the results of our annual customer satisfaction surveys as a strong indicator of how well we are meeting the needs of our clientele. We are pleased to say that 88 percent of customers who responded to the last survey were satisfied with the service they received from the Bank.

>> We are constantly looking for ways to deliver improved customer service. For example, the establishment of Entrepreneurship Centers improved efficiency in the management of loans under $250,000. BDC Connex® has enabled the Bank to accelerate its response time, while providing support to our personnel in the field. By demonstrating innovation in our services, we improve our own productivity and that of our customers.

A motivated and skilled workforce ▼

>> Employee commitment is critical to the success of a service organization such as BDC. Our excellent showing in customer service speaks volumes about the dedication of the people who work at the Bank. We believe it takes motivated and skilled employees to deliver the service quality our customers have come to expect, and are committed to making BDC an "Employer of Choice."

>> During fiscal 2001, we invested a total of $4 million in employee training. In addition, the Bank supported the implementation of succession plans for a number of management level employees, thereby fostering professional fulfillment and development within the organization.

Innovation and productivity ▼

>> As suggested by the theme of this year's annual report, innovation and productivity are key considerations for BDC. The two are intimately linked since, today, innovation is considered to be a key driver of productivity. In fact, innovative businesses show productivity increases that are six to nine times higher than companies that are not particularly innovative. Innovative businesses invest in research and development, adopt new manufacturing technologies and are open to e-business. When productivity increases, so does the competitiveness of a business, making it better able to face the challenges of market globalization.

>> At BDC, we are firmly committed to helping small businesses increase their productivity by offering products and services developed specifically for their needs. For example, the Productivity Plus Loan facilitates both the acquisition of leading-edge technology and related employee training. Another product is Innovation Financing, which targets innovative businesses seeking to carry out R&D, develop new export markets or establish a Web site. Canadian small businesses also have access to BDC's national network of consultants to help them plan their technology strategy or implement e-business solutions.

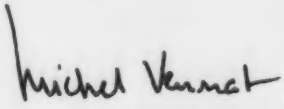
BDC's mandate ▼

>> The Bank is a unique financial institution that plays a critical role by offering higher risk financing, repayable loans with flexible terms and affordable consulting services. Our services complement those of other Canadian financial institutions, with which we have approximately 40 agreements. Last year, we entered into new partnerships with the Laurentian Bank of Canada and the *Fédération des caisses populaires Desjardins de Montréal et de l'Ouest-du-Québec.*

>> Another factor that makes BDC unique is that its products and services are exclusively targeted at small and medium sized businesses, including micro businesses. The small business sector is the backbone of the Canadian economy and the country's main driver of job creation. BDC supports small business development in all economic conditions.

>> As a Crown financial institution, BDC works with government departments and other public institutions to achieve economic development. While each of us has complete autonomy in our own activities, we focus as a group on common priorities such as innovation and productivity.

>> Nearly five years have passed since the Government of Canada modified our mandate, making BDC a complementary lender. Now, more than ever, BDC supports small business, KBIs, exporters and traditional business focused on growth, confirming its role in the new economy and globalization.



Michel Vennat
President and Chief Executive Officer

GLOBAL

The following table presents BDC's global corporate objectives, the corporate strategies used to support the objectives in fiscal 2001 and the results achieved against the planned performance objectives. These performance measures represent the main criteria against which the Bank's performance is measured. Fiscal 2002 planned corporate strategies and objectives are also presented.

Global Corporate Objectives	Corporate Strategies and Results Fiscal 2001	Corporate Strategies and Performance Objectives Fiscal 2002
Increase level of support to Canadian small businesses.	**Performance measurements** • **Amount outstanding in loan portfolio** **Actual: $5.4 billion** **Planned: $5.3 billion** • **Share of new authorizations (loans and venture capital) to KBIs and exporters** **Actual: 50%** **Planned: 47%**	**Performance objectives for fiscal 2002** • **Increase reach and grow portfolio to $5.9 billion.** • **Increase share of new financing authorizations to KBIs and exporters to 48 percent.**
	• Strong economic growth and increasing demand resulted in another record year for BDC lending activity. Net lending authorizations increased by 12 percent, which accelerated dollar growth in the outstanding loan portfolio, now comprising more than 19,000 Canadian small businesses. • Portfolio growth exceeded the planned target by $100 million. • BDC gained further ground in addressing the special financing requirements of KBIs and exporters, allowing the Bank to surpass the pre-established target.	• BDC will focus efforts on increasing reach to Canadian small businesses. • The Bank will refine its distribution network with a view to integrating its delivery channels (branches, Call Center, internet) to provide quality services to Canadian small businesses. • BDC will strive for further innovation in structuring solutions that meet the special needs of knowledge-based businesses and exporters. Subordinate financing and venture capital will play a significant role in achieving this objective as they support the special financing requirements of growing businesses in these sectors.

Global Corporate Objectives	Corporate Strategies and Results Fiscal 2001	Corporate Strategies and Performance Objectives Fiscal 2002
Transform the activities of BDC Consulting Group (CG) to respond to the specific needs of small businesses and be financially sustainable.	**Performance measurement** • **Cost recovery rate** **Actual: 78%** **Planned: 88%**	**Performance objectives for fiscal 2002** • **The performance measurement for CG has been changed from cost recovery to a more client focused indicator, revenues from activities.** • **The objective for fiscal 2002 is to increase revenues from activities to $20 million.**
	• Cost recovery reached 78 percent versus 88 percent targeted, due primarily to the introduction of new products in the market. Revenue from activities reached $17.7 million. • CG expanded its three existing lines of business, which focus on growth, quality and exports, and added a fourth line—e-business. • A new set of services geared to helping small business increase productivity using e-business was developed. This included the introduction of e-business readiness and relevance diagnostic tools for the BDC Web site, to help clients ascertain their e-business needs.	• CG will strive to improve the management ability of Canadian entrepreneurs, to help them grow their businesses. The Group will further integrate consulting solutions with BDC financing. • The recently developed e-business solutions will be fully launched to help small businesses enhance their productivity.
Deliver first-class customer service.	**Performance measurement** • **Customer satisfaction** **Actual: 86%** **Planned: 87%**	**Performance objectives for fiscal 2002** • **Customer satisfaction: 88%** • **Recognizing that employees are the key drivers of customer satisfaction, BDC is adopting the Employer of Choice strategy to its performance management framework. In fiscal 2002, the Bank will introduce Employee Commitment as a new indicator. The objective for the year is set at 83 percent.**
	• The Bank achieved a high level of customer satisfaction in fiscal 2001. • BDC's approach to quality customer service is to offer customized, innovative and flexible business solutions that meet the evolving needs of its small business clientele. • The Bank is presently undergoing a review of its delivery processes with a goal of enhancing the experience of customers and key contacts. • The Bank provided internet access to all employees as an additional tool to improve customer satisfaction.	• BDC plans to build stronger relationships with its customers and foster their long-term growth. • The Bank will continue to assess the needs of clients. • BDC will focus on developing new solutions aimed at helping its clientele adopt new technologies and know-how.

GLOBAL

Global Corporate Objectives	Corporate Strategies and Results Fiscal 2001	Corporate Strategies and Performance Objectives Fiscal 2002
Maximize operating efficiency and cost effectiveness.	**Performance measurement** • **Productivity ratio (operating and administrative expenses as a percentage of net interest income)** **Actual: 53%** **Planned: 54%**	**Performance objective for fiscal 2002** • **Productivity ratio: 53%**
	• The Bank exceeded the planned productivity ratio target which was 54% versus 53% achieved (note that the lower the percentage, the greater the efficiency). • BDC Entrepreneurship Center activity was expanded, not only to meet the needs of smaller loans and business start-ups, but to deliver these services in the most cost-effective manner possible. • The Bank also implemented a number of new information technology systems, including: new loan processing, Human Resources, payroll, general ledger, BDC Consulting Group systems and the intranet.	• The Bank will integrate Web technologies into its current processes in order to give customers access to account information and online loans and to provide employees with efficient tools. • Further simplification of internal processes will help BDC achieve greater internal efficiency while reducing operating expenses. • The Bank will also enhance its enterprise risk management so that it continues to better manage and mitigate the risk inherent to its mandate, strategies and operations.
Generate return on common equity (ROE) at least equal to the Government's long-term cost of funds, and sufficient profits to build up equity for future growth.	**Performance measurements** • **Return on common equity (ROE)** **Actual: 12.8%** **Planned: 6.0%** • **Internal rate of return (IRR)** **Actual: 15.2%** **Planned: 6.3%**	**Performance objectives for fiscal 2002** • **Return on common equity (ROE): 6.1%** • **Internal rate of return (IRR): 15.0%**
	• BDC is mandated to generate a return on equity at least equal to the shareholder's long-term cost of funds and build up sufficient profit for future growth. Increasing equity is essential so that the Bank can extend its reach to Canadian small businesses within its mandate. It also allows the Bank to take greater risks in KBI lending. • Higher returns generated in fiscal 2001 are mainly attributable to the strong performance of venture capital activities. • BDC maintains a prudent level of allowance for credit losses that reflects the riskier nature of its financing activities. In fiscal 2001, the provision for credit losses charge of $106 million included an additional general provision of $15 million more than planned. • Over the past year, the Bank modified the calculation of IRR using a moving 10 year average IRR based on total assets which will produce a more meaningful measure of performance of capital invested (note that this method includes injections of capital, cash and dividend payments). In fiscal 2001, IRR exceeded target due to favourable divestitures.	• BDC expects to earn a return on common shareholder's equity at least equal to the Government's long-term cost of funds—currently around 6 percent. • The Bank aims to increase leverage by attracting partners, especially in co-financings. • A major strategy of BDC Investment Group will be to invest $50 million in a specialized fund designed to support private funds in line with the Bank's sectorial focus, thus creating a new channel of financing for small knowledge-based businesses. • BDC will also explore options to assist in the commercialization of university research.

BDC's raison d'être

>> Committed to helping Canadian small businesses drive growth, BDC continued to provide services tailored to the unique needs of entrepreneurs with a particular focus on productivity in fiscal 2001.

>> The Bank provided financing solutions and consulting services to nearly 20,000 Canadian small businesses. Many of these solutions and services centered on productivity because if Canadian businesses are to maintain their place in the global race and contribute to the country's prosperity, this is where they need to concentrate their efforts.

>> Overall, it was an excellent year for the Bank with significant venture capital results contributing to strong performance. In line with BDC's mandate, the profits generated by the Bank will increase BDC's equity, enabling the Bank to do even more to support the growth of Canadian small businesses.

Adding value in the marketplace

>> BDC fulfills a vital need in the marketplace by complementing the services of commercial financial institutions. The Bank's higher loan coverage for capital investments, financing of developing markets and financing of working capital on a long-term basis are among the features that make it one of the few financial institutions committed to pricing to risk.

>> Small businesses know that they can count on BDC's flexibility to help increase their chances of success. The Bank evaluates each business plan to determine each company's growth potential and provides financing that is customized to development needs. Subordinate financing, for example, helps companies increase working capital and offers flexible repayment terms.

>> Knowledge-based industries and exporters also benefit from specific resources dedicated to financing their creation and growth in recognition of the increasing importance of these sectors to the Canadian economy. As well, BDC has developed a true expertise in serving businesses with non-traditional financing needs.

>> Access to the Bank's products and services is also available to small businesses throughout Canada through a multi-channel network of more than 80 branches across the country and BDC Connex®, the virtual branch that provides online service.

Providing business advice and guidance

>> In fiscal 2001, BDC customers continued to take advantage of the Bank's professional consulting services. BDC Consulting Group provided them with practical and affordable advice and guidance specifically designed to contribute to the success of entrepreneurs.

>> BDC also developed the expertise of employees, opening up opportunities to enhance their skills in key areas such as e-business and demonstrating the Bank's commitment to being an "Employer of Choice."

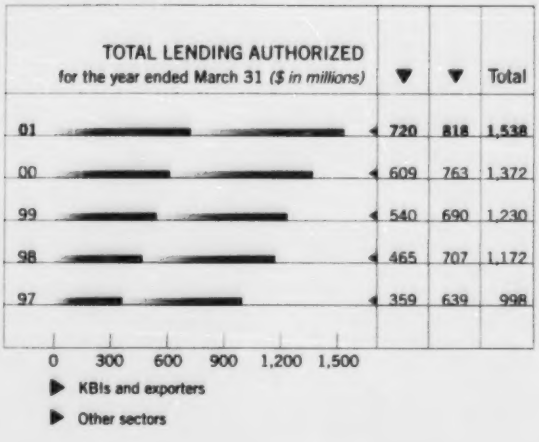
>> The more specific needs of certain sectors of the small business community were served through the Bank's special initiatives, designed to support developing markets such as the Aboriginal sector and young entrepreneurs. All sectors benefited from the Bank's emphasis on forging strategic alliances to better serve the small business community.

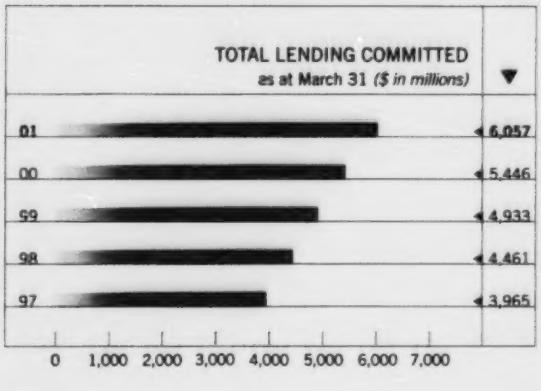
Loans

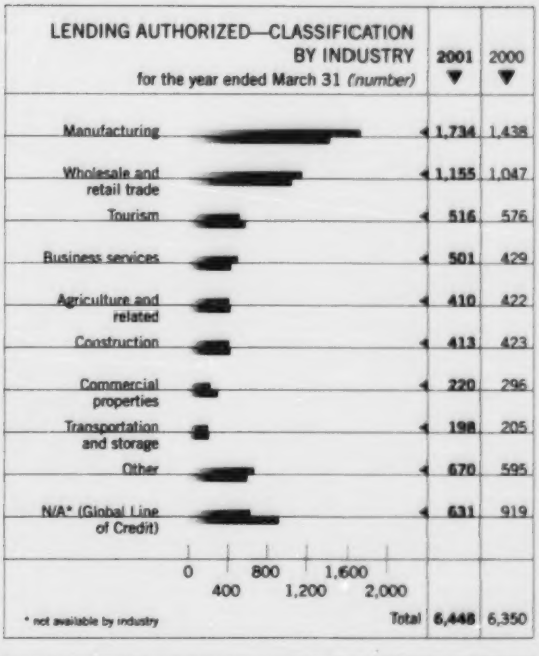
>> Lending authorized reached $1,538 million in fiscal 2001, an increase of 12 percent from the previous year. Of the total increase in lending, 8 percent came from the KBI and export sector, and 4 percent from other sectors. Loans authorized to KBIs and exporters increased by $111 million in fiscal 2001, from $609 million to $720 million. Total share of lending to this new economy was 47 percent, 3 percent higher than the previous year.

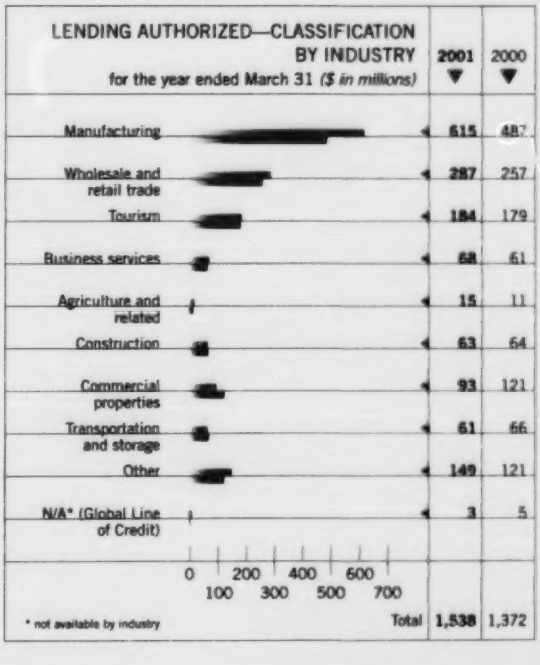
>> As at March 31, 2001, total lending committed increased by more than $600 million over the previous year from $5,446 million to $6,057 million.

REVIEW OF [redacted]





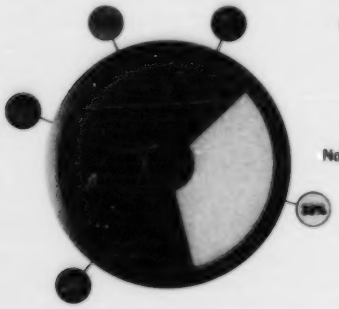




COMMITMENT TO LENDING CUSTOMERS • CLASSIFICATION BY PROVINCE OR TERRITORY

as at March 31	2001		2000	
	Number of customers	**Amount ($ in millions)**	Number of customers	Amount ($ in millions)
Newfoundland	**916**	**202**	906	181
Prince Edward Island	**157**	**49**	160	47
Nova Scotia	**618**	**127**	587	116
New Brunswick	**902**	**232**	886	209
Quebec	**6,564**	**2,472**	5,991	2,222
Ontario	**5,624**	**1,742**	5,122	1,484
Manitoba	**502**	**103**	508	109
Saskatchewan	**576**	**116**	575	114
Alberta	**1,249**	**356**	1,202	304
Northwest Territories and Nunavut	**84**	**30**	87	29
British Columbia	**2,442**	**601**	2,555	600
Yukon	**119**	**27**	129	31
Total	**19,753**	**6,057**	18,708	5,446

DISTRIBUTION OF LENDING CUSTOMERS BY GEOGRAPHIC AREA
as at March 31, 2001



Subordinate financing

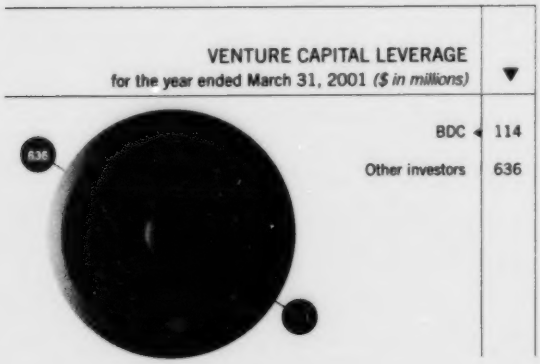
>> As this segment of the financial services industry is relatively less developed in Canada than in the U.S., BDC's role has always been that of an innovative leader. The Bank complements the small number of lenders in this market by focusing its attention on fast-growing, innovative exporters mainly in the manufacturing sector. BDC concentrates on smaller first round financing than does the rest of the industry and provides terms and conditions based on the specific needs of the business.

>> In addition, our new product—Innovation Financing providing loans of up to $250,000—is designed to help innovative businesses position themselves to take advantage of new markets and technologies available to today's global players. This loan helps businesses adapt to ever-changing rules, develop innovation strategies and invent new products to improve their chances of success.

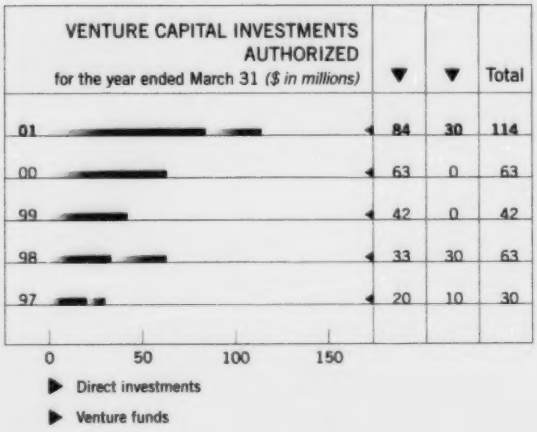
>> Including innovation loans, BDC authorized 377 transactions, totaling nearly $70 million in subordinate financing in fiscal 2001.

Venture capital

>> The Bank's venture capital activities in fiscal 2001 represented a record year. BDC's venture capital commitment at year end totaled $296 million, compared to $195 million in the previous year—an increase of over 50 percent. To enhance clients' access to venture capital and to provide additional network expertise, BDC also partners with co-investors. In fiscal 2001, investee companies received an estimated additional $636 million from other investors, for a total of $750 million in approvals.



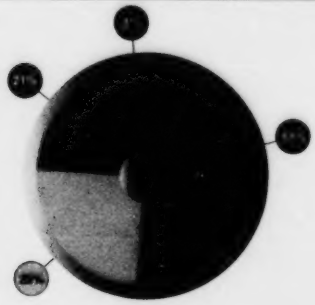
>> BDC continues to actively invest in KBIs at every stage of growth from seed through expansion. During fiscal 2001, the Bank authorized 71 venture capital investments for a total of $114 million, compared to 62 investments for $63 million in fiscal 2000. As well, as at March 31, 2001, 99 percent of the Bank's venture capital commitment was directed to KBIs, largely in the biotechnology, medical/health, electronics, communications and computer-related industries.



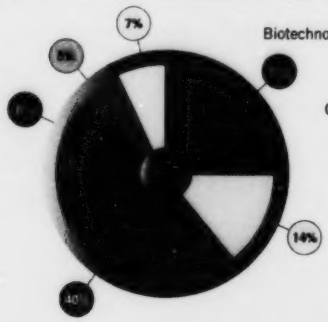
>> As demonstrated in the 2000 annual survey commissioned by BDC, *Economic Impact of Venture Capital*, venture-backed companies are usually high-growth businesses that perform much better than the economy as a whole. From 1995 to 1999, venture-backed businesses showed a substantial average compound annual growth rate in terms of employment (39 percent), sales (31 percent), exports (38 percent) and R&D (52 percent).

>> In fiscal 2001, 76 percent of BDC's venture capital investments authorized were directed to companies in either the start-up, seed or development stage. This reflects the Bank's commitment to financing highly promising, early stage or exponential growth companies. Moreover, on average, BDC's venture capital portfolio is made up of twice as many young accounts as the entire Canadian venture capital industry's portfolio.

NUMBER OF VENTURE CAPITAL INVESTMENTS AUTHORIZED
CLASSIFICATION BY STAGE OF DEVELOPMENT
for the year ended March 31, 2001



VENTURE CAPITAL CUSTOMERS
CLASSIFICATION BY INDUSTRY
as at March 31, 2001



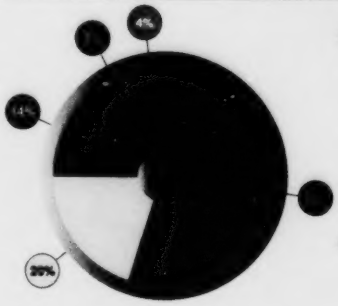
Responding to the needs of smaller businesses

>> BDC has an unwavering commitment to small business, and this is certainly evident with the results of fiscal 2001. The volume of lending authorized increased by 12 percent to over $1.5 billion this past year, and 75 percent of the transactions were for loans of $250,000 or less and including the Global Line of Credit®, 55 percent of transactions were for amounts of $100,000 or less.

>> As an integral part of its lending strategy, BDC provides micro businesses financial support through products such as the Micro Business Program and the Young Entrepreneur Financing Program. As well, Student Business Loans and the Global Line of Credit® are both offered online by BDC Connex®, the Bank's virtual branch.

>> In order to enhance service to small businesses, BDC expanded its network of Entrepreneurship Centers. This past year, the 20 centers, which focus on start-up and growing companies particularly in the knowledge-based and manufacturing sectors, also saw strong growth activity. Lending volume through the Centers more than doubled from $28 million to $58 million in fiscal 2001.

LENDING AUTHORIZED—CLASSIFICATION BY SIZE
for the year ended March 31, 2001



>> Working in tandem with the Entrepreneurship Centers, BDC Consulting Group continued to provide sound advice to young entrepreneurs and micro business clients in order to maximize their success. The Group's services were highly pertinent since most failures among start-ups and young businesses occur due to a lack of efficient management practices.

>> By employing a customer-driven focus in the design of its financial products and services, the Bank has chosen an approach that is already delivering solid results for micro business clients.

Always evolving to meet customer needs

>> Getting closer to customers and responding to their needs was one of BDC's key priorities in fiscal 2001. After all, the Bank's success is ultimately defined by the added value it offers small businesses across the country.

Customized and innovative business solutions

>> The Bank regularly adapts its products and management solutions to respond to changing market demands, and monitoring industry trends is an integral part of this.

>> To reinforce its role in helping small businesses drive productivity, the Bank stepped up efforts to promote the Productivity Plus Loan, which is designed to help sound, export-focused manufacturing companies obtain technology-enhanced equipment. Along with 100 percent financing to purchase equipment and tooling, a small business can receive a further 25 percent for costs related to installing and assembling the equipment and training employees who will use it. Loans typically range from $50,000 to $5 million. In fiscal 2001, BDC granted more than 200 such loans for a total of $98 million.

>> In line with the Bank's key role in driving innovation in the small business sector, BDC introduced Innovation Financing in fiscal 2000 for entrepreneurs looking to stimulate growth, finance R&D costs, expand into new export markets or adopt quality management solutions. This specific product provides financing of up to $250,000 for working capital purposes. In fiscal 2001, BDC granted 326 such loans, which represents a substantial increase of 285 loans over last year, for a total of $37 million.

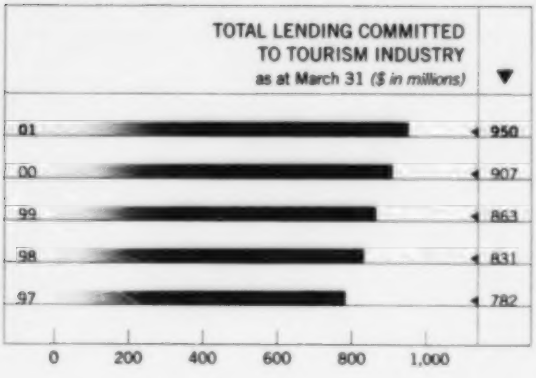
e-business at the top of the Bank's agenda

>> e-business has become a priority for the Bank, particularly because the internet can dramatically improve productivity in the small business realm. On the small business customer front, BDC held conferences with thousands of entrepreneurs to increase awareness of e-business. It also sponsored a how-to guide on business-to-business (B2B) strategies for small and medium sized companies. The Bank also launched a new section on its Web site that enables local representatives and professionals to present customer proposals to BDC. The Bank can now fulfill loan requests anytime and anywhere, greatly improving its responsiveness.

>> BDC Connex® uses the Web as a business channel, which continues to be a popular choice with customers. In addition, BDC is committed to ensuring employees increase their knowledge of the Web and use it for research and marketing. The Bank has made the internet available to all employees and incorporated the Web into its recruitment process.

Excellent performance in the tourism sector

>> Tourism continues to be the third largest sector in BDC lending activity. In fiscal 2001, the Bank authorized loans totaling $184 million to tourism businesses. As at March 31, total commitments to this industry had reached $950 million, a $43 million increase from a year ago. Tourism is one of the fastest growing industries in Canada and around the world. As this industry has become more sophisticated and innovative, BDC has adapted its Tourism Investment Fund to respond to these changes.

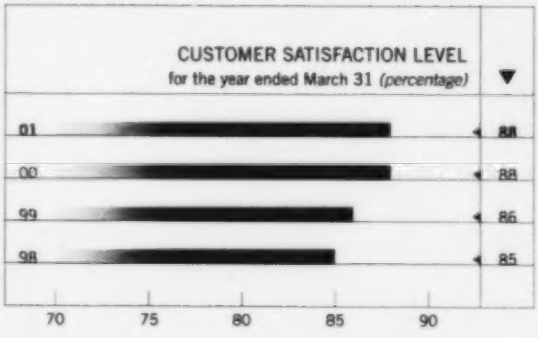


A customer-focused Bank demands quality people

>> The success of the Bank certainly lies in the quality of its workforce, and BDC's employees are showing their unwavering dedication to the organization and its customers. Through a diversity of internal programs that recognizes the exceptional contributions of employees, BDC continues to reinforce its commitment to being an "Employer of Choice."

>> The Bank adheres to its philosophy that trained and motivated employees deliver the best customer service. In fiscal 2001, BDC invested approximately $4 million in training addressing key areas such as language, the internet and leadership. An exemplary training initiative was the Banff Conference that gave 225 employees an opportunity to develop skills needed to succeed in today's business environment.

>> In fiscal 2001, our annual customer satisfaction survey again showed very positive results, with 88 percent of clients satisfied with the Bank's service.



BDC Consulting Group

>> BDC Consulting Group continued to meet the changing needs of Canadian small businesses in fiscal 2001 by developing and providing practical and affordable consulting services that help drive productivity and growth. Last year, the Group increased consulting projects for small and medium sized businesses from 5,009 to 5,660.

>> Major accomplishments included expansion of the Group's three existing lines of business focused on growth, quality and exports, and the addition of a fourth line—e-business.

Growth

>> The Group's Growth Potential Assessment, or GPA, which allows owners to obtain a comprehensive review of their business strengths and weaknesses in a variety of areas including productivity-related issues, has proven to be one of the most popular services developed by BDC Consulting Group. The Tech Strategy Program, which emphasizes the use of technology to improve productivity, is also being employed by entrepreneurs.

Quality

>> The Group continued to provide consulting services to improve quality and ultimately help companies compete for international contracts. To date, BDC Consulting Group has provided these services to over 1,000 companies that have become ISO certified. Adoption of the new ISO 9000:2000 standard in January 2001 quickly translated into a new service offering by the Group. Complementary to that service are the Group's HACCP quality solution for the agri-food sector and the ISO 14000 solution for environmental concerns.

Exports

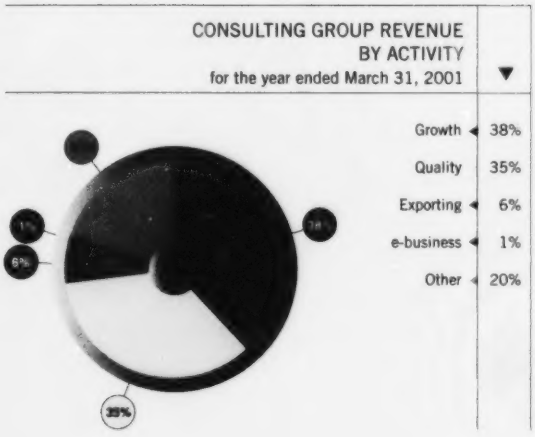
>> In addition to offering its New Exporter Program (NEXPRO) and market study services, the Group reinvigorated its export line through the signature of a new agreement with the Forum for International Trade Training (FITT). The agreement allows the Bank to use and adapt the Forum's new export training program for BDC customers.

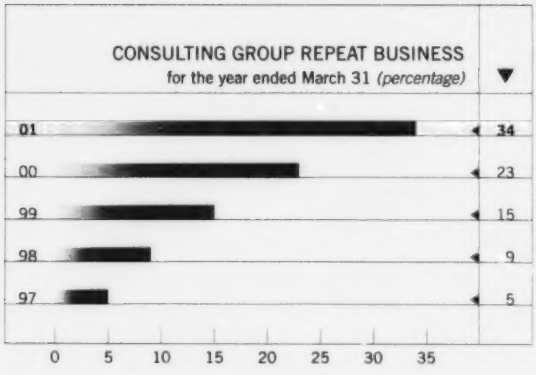
e-business

>> With e-business rapidly redefining the way business is conducted, BDC Consulting Group made e-business an objective in fiscal 2001. The Group responded to the request for help, developing fundamental e-business strategies by introducing an e-strat program consisting of information modules designed to help entrepreneurs devise sound e-strategies. In addition, it developed e-business readiness and relevance diagnostic tools on the BDC Web site, allowing entrepreneurs to handle their own online e-business diagnoses.

>> BDC Consulting Group revenues in fiscal 2001 were $17.7 million, 80 percent of which were derived from services provided directly to small businesses. This represents a slight increase over last year. However, revenues from internal sources decreased from $5.3 million to $3.5 million.

>> Revenues from the Group's growth line of business accounted for 38 percent of these revenues, while quality management revenues represented 35 percent, exporting 6 percent and other areas, 21 percent. Figures for fiscal 2001 also show that BDC Consulting Group's repeat business reached 34 percent, compared to 23 percent in fiscal 2000. This reflects a high level of customer satisfaction with the quality and pertinence of the Group's services.





The BDC distinction

>> BDC Consulting Group continues to be an active member of the Canadian Association of Management Consultants and the *Ordre des administrateurs agréés du Québec*. In fiscal 2001, seventeen employees from the group qualified to receive their Certified Management Consultant designation.

>> In addition, the Group continued to respond to client needs with a new, decentralized structure that puts more emphasis on the development of new products and services at the local level, a hallmark of the Group.

Strategic alliances

>> As a complementary lender, BDC focuses on forging strategic alliances to better serve the small business community.

>> To date BDC has entered into more than 40 strategic alliances with partners ranging from chartered banks and venture capital investment funds to government departments and Crown corporations.

>> BDC Consulting Group has also developed partnerships with Canada Economic Development for Quebec Regions, ACOA and FedNor to support its e-strat program, as well as with the National Research Council of Canada and the Quebec Order of Engineers to support its Tech Strategy Program.

Joining forces with financial institutions

>> The Bank's strategic alliances with financial institutions take many forms, but all have one goal in common: to provide small businesses increased access to the financing they need.

>> In fiscal 2001, BDC forged partnerships with the Laurentian Bank of Canada and the *Fédération des Caisses populaires Desjardins de Montréal et de l'Ouest-du-Québec*. Examples of solutions developed with financial institutions include BDC offering its Global Line of Credit® to clients, together with the Toronto-Dominion Bank, credit unions referring small business clients to BDC to meet their full financing needs and Sun Life of Canada offering insurance on BDC loans.

Innovating with private organizations

>> BDC has been instrumental in increasing the amount of capital for the venture capital market. BDC has set aside additional funding for early stage technology venture funds which will be leveraged with funding from third party sources.

>> BDC also has partnership agreements with several business associations, whereby BDC provides consulting services to their members.

Teaming up with Government departments and Crown corporations

>> BDC continued its partnership agreements with the Canadian Tourism Commission, the National Research Council of Canada and the regional economic development agencies to increase cooperation and cross-referral of clients.

>> BDC also uses its network and staff for cost-effective delivery of commercially based financing programs. For example, the Bank delivers the Student Business Loans Program online via BDC Connex® on behalf of Human Resources Development Canada (HRDC). This long-standing partnership has, for many years, been helping students create and run a summer business with the help of interest-free loans. In fiscal 2001, over 700 such loans were authorized to budding Canadian entrepreneurs.

>> Ongoing partnerships with BDC's sister financial Crown corporations are assured by the Council of Crown Financial Institutions.

>> In addition to BDC, members include the Canadian Commercial Corporation, the Export Development Corporation and the Farm Credit Corporation. The Council focuses on improving customer service and avoiding or reducing overlap and duplication among Crown corporations.

>> BDC has a separate agreement with the Farm Credit Corporation to coordinate the services to help agri-business and farming-related businesses grow and prosper.

Meeting the needs of developing markets

>> Promoting and supporting the growth of small businesses in developing markets remained a key objective for BDC in fiscal 2001 with the Bank putting special emphasis on helping three growing sectors of the Canadian economy: the Aboriginal sector, young entrepreneurs and women.

The growing Aboriginal market

>> BDC continued to increase its level of activity in the Aboriginal market through its Aboriginal Banking Unit. Total lending committed to support Aboriginal business at year end reached $40 million, an increase of 80 percent since fiscal 1995.

>> Accomplishments in fiscal 2001 included the creation of Aboriginal Business Services, the recruiting of a network of Aboriginal management consultants and the development of consulting services for the Aboriginal market. One initiative to promote Aboriginal economic development introduced during the year was a pilot project to help the Membertou First Nation Band Administration obtain ISO certification, which would make it the first band in North America to be ISO-certified. Another innovative idea called E-Spirit resulted in the development of a national internet-based Aboriginal Youth Business Plan Competition. A total of about 300 students registered for the competition targeting grades 10 to 12.

>> The Bank also sponsored and delivered a series of presentations entitled, "How to effectively deal with banks" through on-reserve economic development organizations. It launched the BDC Aboriginal Banking Newsletter, dedicated to Aboriginal entrepreneurs and focusing on issues relevant to Aboriginal economic development.

Celebrating the entrepreneurial spirit across Canada

>> Following the tradition of the last 22 years, BDC once again proudly organized Small Business Week. The theme, "CyberBiz, Innovations on the Leading Edge!", served to reinforce the Bank's commitment to helping Canadians reap their fair share of the benefits of the new economy. One of the highlights of the Week was the Young Entrepreneur Awards ceremony. It provided the opportunity to celebrate the entrepreneurial spirit of the new generation and honour successful business leaders, aged 30 and under from every province and territory.

>> Each of the winning 13 entrepreneurs was matched for a full year with a prominent business leader under a mentor program. One of the winners also received the Export Achievement Award, presented by the Export Development Corporation to the small business that had best opened up new international markets.

>> Numbers tell the story when it comes to BDC's emphasis on youth-owned business. In fiscal 2001, BDC authorized over 1,000 loans to support youth-owned business for a total amount of $92 million.

Growth in women-owned businesses

>> Women entrepreneurs are another of BDC's target markets. The Bank recognizes that women-owned firms constitute a fast growing and important segment of the small business world. In fiscal 2001, BDC made 1,400 lending transactions to women-owned businesses for a total amount of $277 million, a $43 million increase from the previous year. The Bank will continue to work with women entrepreneurs, who are a driving force in the Canadian economy both as business owners and as employers.

Multi-channel communications

>> All small business owners have the opportunity to discuss and learn more about important issues at BDC-sponsored Info-Fairs organized by Industry Canada across Canada. These events provide a forum for discussion and distribution of information on relevant Government products, programs and services.

>> Other sources of information for small business owners provided by the Bank include its Web site (www.bdc.ca) and publications such as *Profit$* magazine and *BDC News OnLine*. In addition to a comprehensive virtual library of information useful to new and more experienced entrepreneurs, the BDC Web site also provides tools designed to help small business owners assess their skills and the feasibility of their ideas.

BDC employees behind small business growth

Known for their unwavering dedication and professionalism, BDC employees are key to the Bank's success. Attention to customer service is at the very heart of everything they do. They play an essential role in helping drive small business productivity and growth by listening and responding effectively to the needs of Canada's entrepreneurs.

Lise Gauthier, Director, Planning and Performance Management, BDC Consulting Group, Montreal and Pierre Landry, General Manager, *Ordre des administrateurs agréés du Québec*

>> Lise Gauthier was one of seventeen employees from BDC Consulting Group to receive a Certified Management Consultant designation from the Canadian Association of Management Consultants as well as from the *Ordre des administrateurs agréés du Québec*. She achieved the highest marks on the exam in Quebec.

Mario Larouche, Area Branch Manager, BDC Connex®

>> "In today's demanding business world, timely and convenient access to financing is vital, so we've worked hard at BDC Connex® to improve our internal work processes and our response time with our customers. Right across the country, more and more clients are seeing our service enhancements."

Shirley Bennie, Area Branch Manager, Vancouver and Anne Chong Hill, President, Global Gourmet Foods Inc.

>> "When you can see the rapid growth of a company like Global Gourmet Foods, it's real proof that you're innovating for your clients and helping them improve productivity. To be more responsive to the needs of companies like this one, our branch uses BDC Connex® to facilitate faster credit checks, which also means quicker turnaround for lending."

Susan Rohac, Manager, Subordinate Financing, Ottawa and Hugh Lawford, President, Quicklaw; Meena Mackie, CFO, Quicklaw; Chuck Smith, Branch Manager, BDC, Kingston; Susan Thurlow, Account Manager, BDC, Kingston; Shai Dubey, COO and Corporate Counsel, Quicklaw

"We truly believe in Quicklaw Inc., the world's first online legal information service. We have backed this company since its inception years ago. A recent round of Subordinate Financing has helped the firm enter the U.S. market, expand its collection of databases and develop new technologies. It feels great to be behind such an innovative company."

Maurice Montreuil, Manager, Aboriginal Business Services, Winnipeg

Barry Mathers, Manager, Aboriginal Financing Funds, Winnipeg and Marileen McCormick, Executive Director, Centre for Aboriginal Human Resource Development

>> "Our team had the mandate to establish a national registry of Aboriginal management consultants this year, and we're very proud that after 10 months, we have now recruited 20. The Bank has also developed distinct programs designed uniquely for the Aboriginal community, including the Aboriginal Business Development Fund for Micro Businesses, the Management Mentoring Program and the Aboriginal Entrepreneur Training Program. We have also teamed up with one of our invaluable financial services experts, Barry Mathers, in order to ensure that we can offer our clients a full range of financial and consulting services."

Manon Hamel, Manager, Entrepreneurship Center, Ottawa and Richard Robinson, Designer

>> "The Entrepreneurship Centers allow us to get closer to clients by providing one-on-one service. For more than 30 years, Richard Robinson Haute Couture's client base has been largely national, and today, we have helped the firm reach the international market with its prestigious collections. It's very satisfying to see these concrete results."

Serge Coulombe, Senior Partner, BDC Consulting Group, Quebec and Léo Lévesque, President and CEO, Cuisines Laurier Inc.

>> "When Cuisines Laurier was ready to tackle the global marketplace, BDC Consulting Group was there with full support. Along with my team, I helped improve client knowledge of the international market through our NEXPRO program and today, 85 percent of the company's revenues come from exports. To help the firm boost productivity through automating operations, we provided our strategic management expertise. The contribution we made was invaluable."

INNOVATING PRODUCTIVITY IN THE [redacted]

...ic Canada, such
...foundland ...a's Sable Island
made engineering ... area's "hot"
...mand is high for sk... ...who can help
...nical challenge of ... in northern
...rise to other
...ortation and
...ufacturing—all in ... ...pertise. BDC's
... local engineering indu... contributing to
... in the Atlantic region's economy.
Newfoundland's ... Domestic Product (GDP), for example,
... to grow 5 percent in 2001.

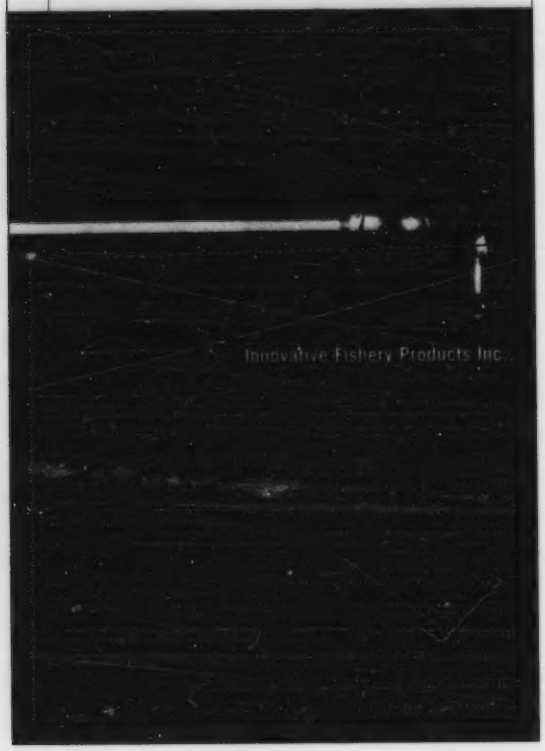
David Driscoll
President, D & L Engineering Sales Limited
Halifax, Nova Scotia

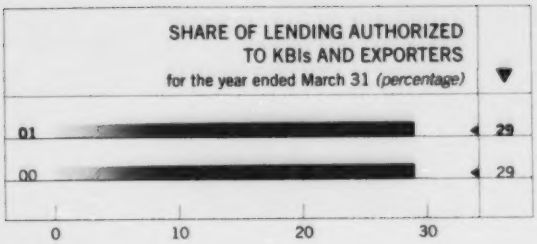
D & L Engineering Sales Limited

D & L Engineering Sales Limited develops and supplies customized fire detection and life safety systems for the marine, offshore, military, industrial and commercial sectors.

"In a highly competitive industry like ours, tackling the international market is nothing less than essential. And that's precisely why working with BDC to achieve ISO 9002 certification was paramount to our success in the global arena. In the past year, we've seen 20 percent growth, largely due to the offshore oil and gas industry. And to accommodate our rapid expansion, we used a BDC term loan to renovate our warehouse facilities and create new office space. With everything in place, we're now ready to explore our export potential."

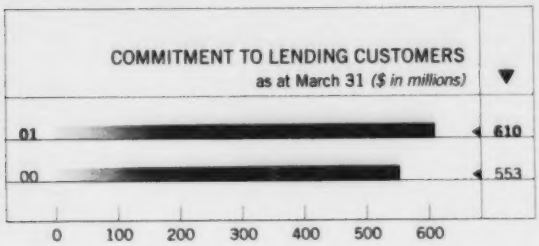
Doug Bertram
General Manager, Innovative Fishery Products Inc.
St. Bernard, Nova Scotia





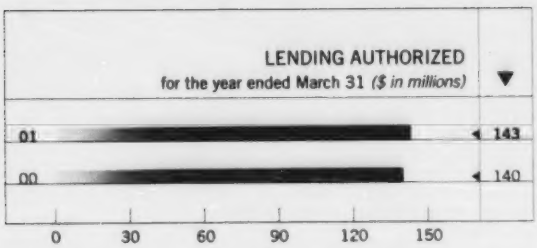
COMMITMENT TO LENDING CUSTOMERS
CLASSIFICATION BY PROVINCE

as at March 31	2001 Number of customers	2001 Amount ($000)	2000 Number of customers	2000 Amount ($000)
Newfoundland	**918**	**$ 201,943**	906	$ 180,915
Prince Edward Island	**157**	**48,619**	160	47,130
Nova Scotia	**618**	**127,358**	587	116,206
New Brunswick	**902**	**232,111**	886	208,700
Total	**2,593**	**$ 610,031**	2,539	$ 552,951



CONSULTING GROUP

for the year ended March 31	2001	2000
Revenue ($000)	**$ 1,454**	$ 2,114
Projects (number)	**549**	431



LENDING AUTHORIZED · CLASSIFICATION BY PROVINCE

for the year ended March 31	2001 Number	2001 Net amount ($000)	2000 Number	2000 Net amount ($000)
Newfoundland	**250**	**$ 48,628**	260	$ 47,585
Prince Edward Island	**31**	**8,480**	50	9,930
Nova Scotia	**166**	**30,896**	160	26,835
New Brunswick	**212**	**54,730**	236	55,781
Total	**659**	**$ 142,734**	706	$ 140,131
Share of lending authorized to KBIs and exporters		**29%**		29%

Management	Branches
Ross Miller **Vice-President and** **District Manager, Newfoundland**	Corner Brook Grand Falls-Windsor St. John's*
Rick Floyd **Vice-President and** **District Manager, Nova Scotia**	Bridgewater Halifax* Sydney Truro
Vacant **Vice-President and Area** **Manager, New Brunswick and** **Prince Edward Island**	Bathurst (N.B.) Charlottetown (P.E.I.) Edmundston (N.B.) Fredericton (N.B.) Moncton (N.B.)* Saint John (N.B.)
	*Location of Entrepreneurship Centers

INNOVATING PRODUCTIVITY IN [redacted]

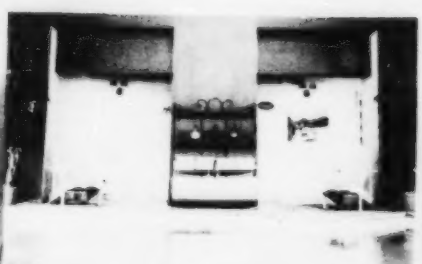
ology products on the
killed resources and
gives the province a
et. About 30 percent
re located in Quebec
nt spent on Canadian
province, an investment
the year 2002. Thanks to BDC's
biotech firms, most of which
are gaining an international
reputation.

Duffy DuFresne
President and CEO, ConjuChem Inc.
Montreal, Quebec

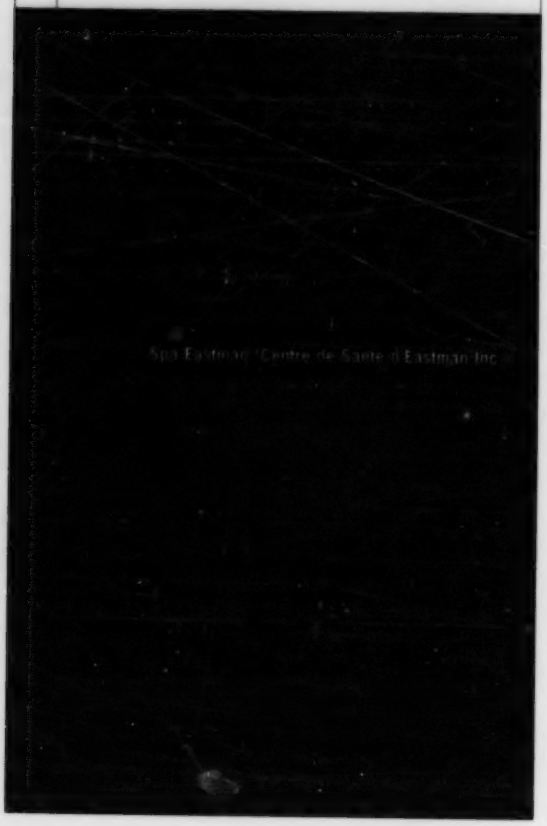
ConjuChem Inc.

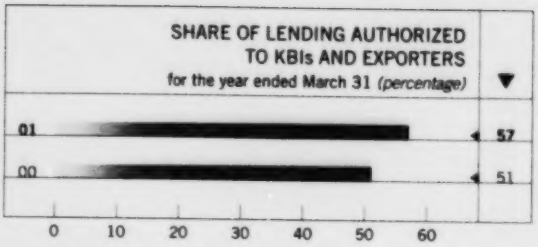
ConjuChem Inc. is a biotechnology company that has developed proprietary technologies enabling the rapid creation of improved, patentable drugs from existing drugs.

"BDC was one of the early investors in ConjuChem, taking us from a start-up company with five people to a successful IPO with 50 employees today. The dominant issue of value in our company is our patented technology, which is broadly applicable to a range of drugs. Our new drug constructs can improve the duration of action in the body as well as improve the safety and side effects profile. ConjuChem's scope for growth is enormous, and that makes for a very exciting future."



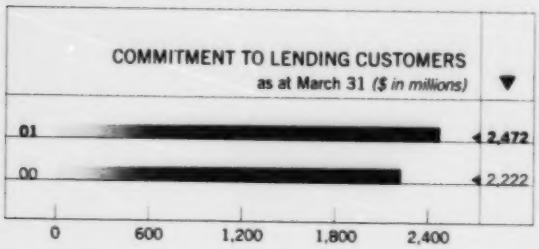
Jocelyna Dubuc
President, Spa Eastman
Eastman, Quebec





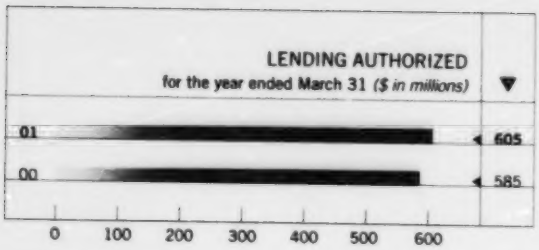
COMMITMENT TO LENDING CUSTOMERS

as at March 31	2001 Number of customers	2001 Amount ($000)	2000 Number of customers	2000 Amount ($000)
Quebec	**6,564**	**$2,472,170**	5,991	$2,222,261



CONSULTING GROUP

for the year ended March 31	2001	2000
Revenue ($000)	**$ 7,619**	$ 7,837
Projects (number)	**2,468**	2,246



LENDING AUTHORIZED

for the year ended March 31	2001 Number	2001 Net amount ($000)	2000 Number	2000 Net amount ($000)
Quebec	**2,083**	**$ 605,309**	2,113	$ 585,130
Share of lending authorized to KBIs and exporters		**57%**		51%

Management	Branches
Alain Gilbert **Vice-President and Area Manager, Eastern Quebec**	Chicoutimi Quebec* Rimouski Trois-Rivières
Guy Gervais **Vice-President and Area Manager, Southern Quebec**	Drummondville Granby Longueuil* Sherbrooke
Gilles Lapierre **Vice-President and Area Manager, Laval**	Laval* Saint-Jérôme Thérèse-de-Blainville
Michel Crête **Vice-President and Area Manager, Montreal**	De Maisonneuve Place Ville Marie* Saint-Léonard
Patrice Bernard **Vice-President and Area Manager, Western Quebec**	Hull Pointe-Claire Rouyn-Noranda Saint-Laurent*

*Location of Entrepreneurship Centers

INNOVATING PRODUCTIVITY IN **ONTARIO**

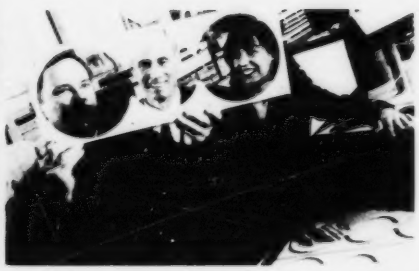
demand for culture. **Ontario** has become a **mpanies** with products **animation**. Clearly, **r of a** communications **d infrastructure** and **ch and** development **Canada's** private sector **velopment** is done in **ntrepreneurs** turn their

Adrian Segerer
President, Le Maitre Special Effects
London, Ontario

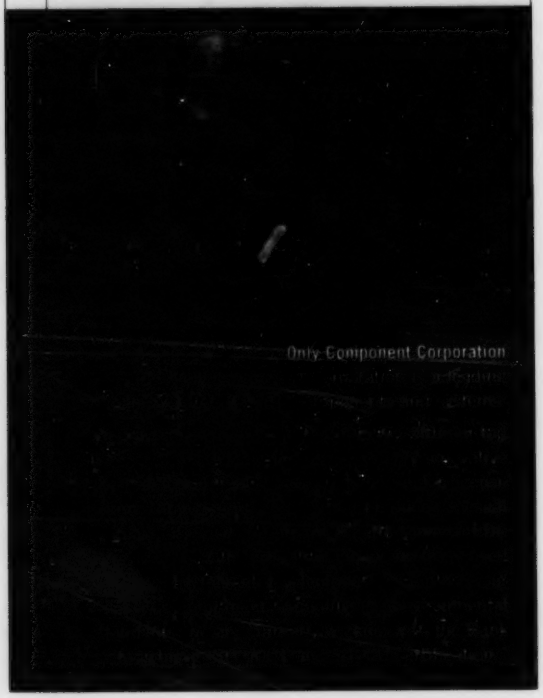
Le Maitre Special Effects

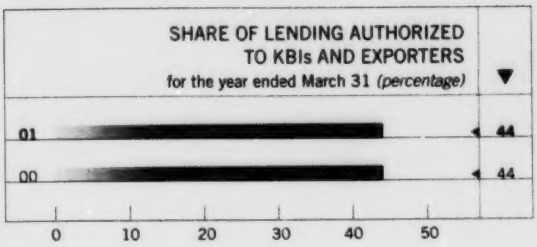
Le Maitre Special Effects is a world-class manufacturer of theatrical special effects, including fog, simulated steam and pyrotechnical equipment for the entertainment industry.

"We started out thinking locally. But with an insatiable demand for entertainment in the U.S. that boasts a population of 300 million, we knew that tapping into this lucrative market would be key to our success. Today, more than 85 percent of our revenues come from the U.S. and Mexico, and this year we've achieved about 22 percent growth in our company. BDC has worked with us for more than nine years, and the Bank's Subordinate Financing has helped us extend our reach into the international marketplace."



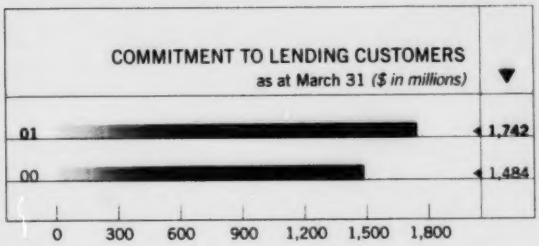
Robert Baker
President, Only Component Corporation
Markham, Ontario





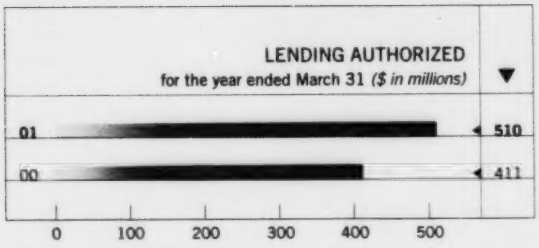
COMMITMENT TO LENDING CUSTOMERS

as at March 31	2001 Number of customers	2001 Amount ($000)	Number of customers	2000 Amount ($000)
Ontario	**5,624**	**$1,742,151**	5,122	$1,484,152



CONSULTING GROUP

for the year ended March 31	2001	2000
Revenue ($000)	**$ 5,562**	$ 5,841
Projects (number)	**1,513**	954



LENDING AUTHORIZED

for the year ended March 31	2001 Number	2001 Net amount ($000)	2000 Number	2000 Net amount ($000)
Ontario	**1,822**	**$ 509,626**	1,590	$ 410,736
Share of lending authorized to KBIs and exporters		**44%**		44%

Management	Branches
Pauline Rochefort **Vice-President and Area Manager** **Eastern and Northern Ontario**	Kingston* Ottawa*
Kevin Dane **Vice-President and District** **Manager, Northern Ontario**	Kenora North Bay Sault Ste. Marie Sudbury Thunder Bay Timmins
Ronald Panetta **Vice-President and Area** **Manager, Southern Ontario**	Kitchener London* Stratford Windsor
Michel Leduc **Vice-President and Area** **Manager, Toronto**	Barrie North York* Toronto* Toronto North
Brendan Cunneen **Vice-President and Area** **Manager, Toronto East**	Markham Oshawa Peterborough Scarborough*
André Dusablon **Vice-President and Area** **Manager, Mississauga**	Brampton Halton Hamilton Mississauga* St. Catharines

*Location of Entrepreneurship Centers

INNOVATING PRODUCTIVITY IN THE

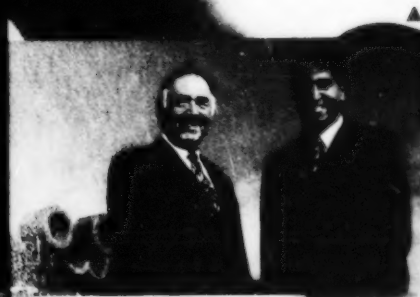
>> W[illegible]'s [illegible] sector is vaulting into promin[illegible] of telecommunications and soft[illegible]. And BDC is there with customized [illegible] Growth in local industries has [illegible] information technologies, giv[illegible] start-up firms. Alberta, with over 51,[illegible] 11 percent growth in new [illegible] industries [illegible] years or so and plans to [illegible] the size of its [illegible] in the next 10 years. [illegible] tum is [illegible] other western regions as well, wi[illegible] to ta[illegible] of this new economy [illegible] are being develop[illegible]

Sid McDougall
President, Pepco Tubular Services
Edmonton, Alberta

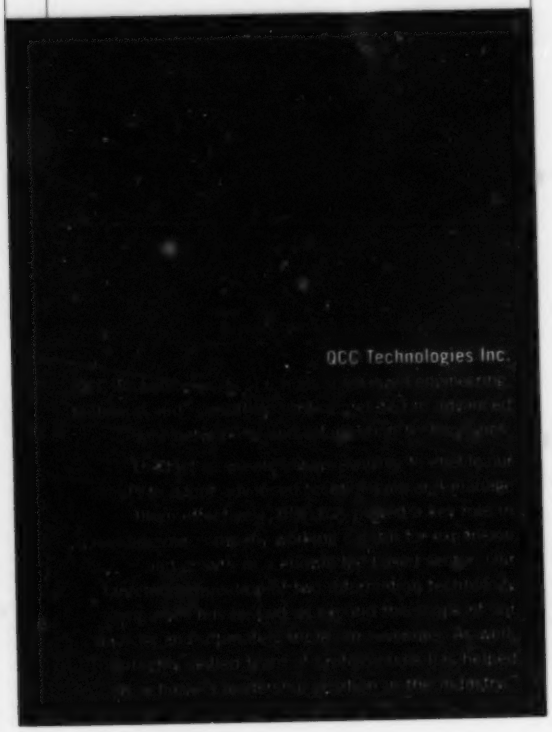
Pepco Tubular Services

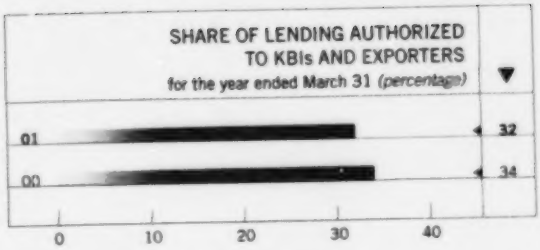
Pepco Tubular Services is a leader in pipe fabrication, tubular coating of down hole tubing, drill pipes, line pipes, and pipe fittings for oil and gas, chemical and pipeline companies.

"The drilling and pipeline industries here have experienced tremendous growth and we're definitely seeing the benefits. Our revenues in the past year have increased by 50 percent, and this is largely due to our dedicated service approach and keeping a close eye on the market. For example, we knew that companies were making increasing demands for coating services, so we used a BDC term loan to purchase sophisticated coating equipment. It's great to be in an environment that's moving full speed ahead."



David Criddle
President and CEO, QCC Technologies Inc.
Saskatoon, Saskatchewan

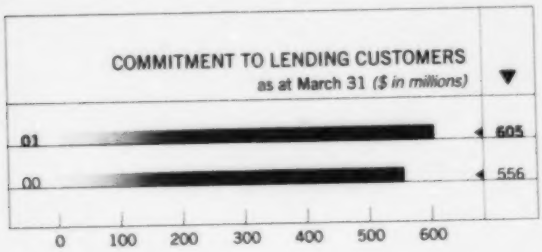


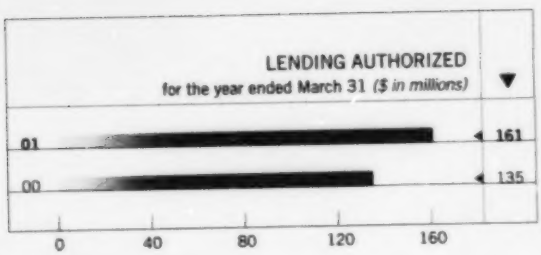


COMMITMENT TO LENDING CUSTOMERS
CLASSIFICATION BY PROVINCE AND TERRITORY

as at March 31

	2001		2000	
	Number of customers	Amount ($000)	Number of customers	Amount ($000)
Manitoba	502	$ 103,330	508	$ 108,654
Saskatchewan	576	116,331	575	113,751
Alberta	1,249	355,827	1,202	304,189
Northwest Territories and Nunavut	84	29,876	87	29,256
Total	**2,411**	**$ 605,384**	2,372	$ 555,850





LENDING AUTHORIZED
CLASSIFICATION BY PROVINCE AND TERRITORY

for the year ended March 31

	2001		2000	
	Number	Net amount ($000)	Number	Net amount ($000)
Manitoba	210	$ 18,229	242	$ 28,524
Saskatchewan	349	26,792	391	27,122
Alberta	634	110,231	585	73,443
Northwest Territories and Nunavut	15	6,303	21	6,334
Total	**1,208**	**$161,555**	1,239	$ 135,423
Share of lending authorized to KBIs and exporters		**32%**		34%

CONSULTING GROUP

for the year ended March 31	2001	2000
Revenue ($000)	$ 1,725	$ 1,959
Projects (number)	474	676

Management	Branches
Wellington Holbrook **Vice-President and Area Manager, Manitoba and Saskatchewan**	Brandon (Man.) Regina (Sask.) Saskatoon (Sask.) Winnipeg (Man.)*
Laura Didyk **Vice-President and Area Manager, Southern Alberta**	Calgary Calgary North* Lethbridge
Terry Quinn **Vice-President and Area Manager, Northern Alberta and Northwest Territories**	Edmonton (Alta.)* Grande Prairie (Alta.) Red Deer (Alta.) Yellowknife (N.W.T.)

*Location of Entrepreneurship Centers

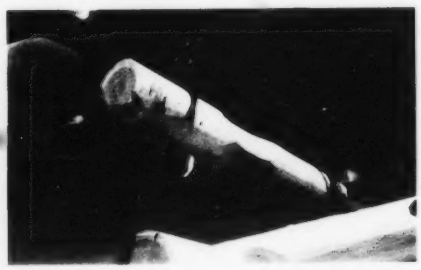
BD[illegible] in British Columbia's [illegible]wing component of the [illegible]er. Within the last five [illegible]shellfish [illegible]own to about one third the size of the province's [illegible] fishery and aquaculture [illegible] contributed more to the province's GDP than the salmon fishery. For example, [illegible] beginnings in the early 1980s, the industry has expanded more than most [illegible]g growth in the electrical [illegible] industry tenfold. C[illegible]t role in the local

Wayne Gorrie
President, PRAqua Supplies Ltd.
Nanaimo, British Columbia

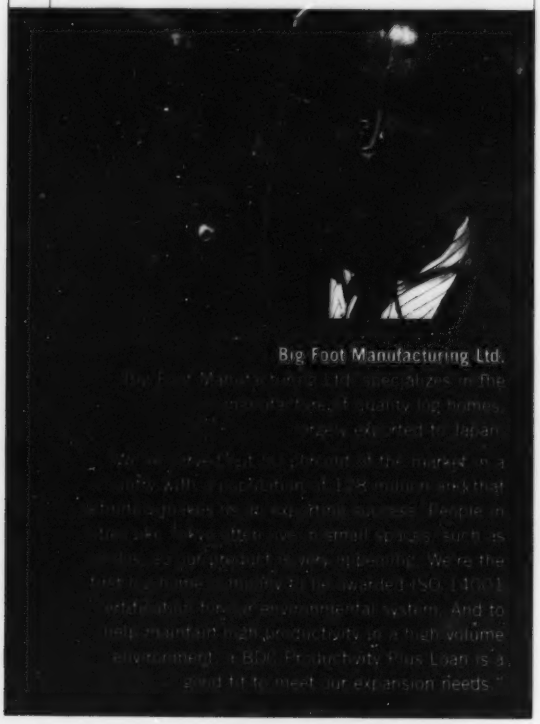
PRAqua Supplies Ltd.

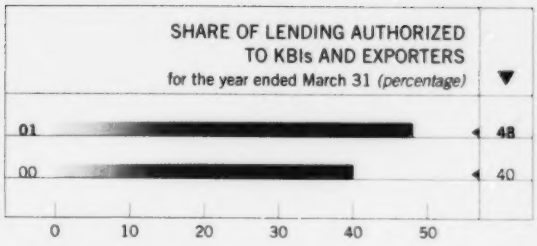
The PRAqua Group of Companies is a market leader in providing design, engineering and construction services to the aquaculture and water treatment industries.

"Whether it's providing full design and field services to build a salmon hatchery or putting a multi-disciplinary design team on a complex water treatment problem, the core of our success today is innovation. When we realized that our engineering services had to significantly expand to meet soaring demands, we created PRAqua Technologies Ltd. and BDC backed us with a term loan to help purchase a new building to house our team. Today, we feel that our company is truly growth driven and we are exporting more than 50 percent of our products and services to countries all over the world."



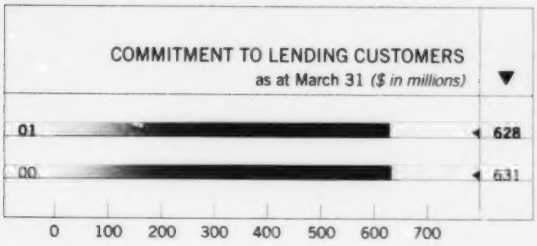
Masahide Muroyama
President, Big Foot Manufacturing Ltd.
Tappen, British Columbia





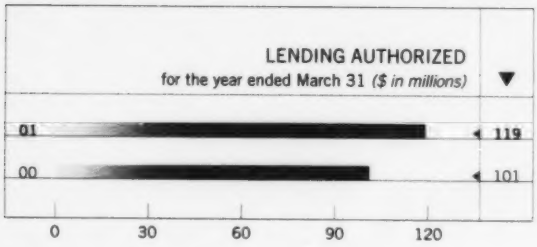
COMMITMENT TO LENDING CUSTOMERS
CLASSIFICATION BY PROVINCE AND TERRITORY

as at March 31	2001		2000	
	Number of customers	**Amount ($000)**	Number of customers	Amount ($000)
British Columbia	**2,442**	**$ 601,172**	2,555	$ 600,392
Yukon	**119**	**26,397**	129	30,703
Total	**2,561**	**$ 627,569**	2,684	$ 631,095



CONSULTING GROUP

for the year ended March 31	2001	2000
Revenue ($000)	**$ 1,384**	$ 1,645
Projects (number)	**656**	702



LENDING AUTHORIZED
CLASSIFICATION BY PROVINCE AND TERRITORY

for the year ended March 31	2001		2000	
	Number	**Net amount ($000)**	Number	Net amount ($000)
British Columbia	**659**	**$ 116,853**	685	$ 97,692
Yukon	**17**	**1,837**	17	3,380
Total	**676**	**$ 118,690**	702	$ 101,072
Share of lending authorized to KBIs and exporters		**48%**		40%

Management	**Branches**
Brian Forward **Vice-President and Area Manager, Fraser and Interior**	Cranbrook (B.C.) Fort St. John (B.C.) Fraser Central (B.C.)* Langley (B.C.) Prince George (B.C.) Whitehorse (Y.T.)
Steve Zink **Vice-President and District Manager, B.C. Interior**	Kelowna Kamloops Williams Lake
William Martinez **Vice-President and Area Manager, Vancouver**	Campbell River Nanaimo North Vancouver Terrace Vancouver* Victoria

*Location of Entrepreneurship Centers

>> BDC's Board of Directors is firmly committed to effective corporate governance practices that ensure that the Bank operates according to solid business principles while filling a vital need in the Canadian economy. Board members, who represent the geographic and professional diversity of BDC customers, believe that a flexible, yet strong corporate governance regime that emphasizes openness and full accountability is key to maintaining the Bank's position as a leading financial institution dedicated to small business.

>> In fulfilling their role of directing and managing BDC business affairs, the Board and its committees monitor the effectiveness of the Bank's corporate governance practices and approve necessary changes. They approve the strategic direction and Corporate Plan, monitor corporate performance, authorize compensation policies, ensure business risks are properly identified and appropriate risk management systems are implemented. They also ensure that the proper financial reporting, financial control and audit systems are implemented.

>> In fiscal 2001, the Board undertook specific activities to ensure it continued to effectively fulfill its mandate.

>> Board members participated in a strategic session whereby they reviewed BDC's Mission, Vision and Strategic Priorities.

>> In recognition that feedback is also an important part of the governance process, an annual evaluation procedure was implemented in order to assess the Board and committees' performance.

>> Fully aware that high performance is required of all bodies, although the Bank has been practicing effective risk management for many years, the Board and management have been placing greater emphasis this year on integrated risk management. The Bank's key risks were assessed, together with actions being taken to successfully manage these risks. As well, an effective on-going process was put in place to identify, measure and proactively manage potential risks.

>> The Board met nine times in fiscal 2001. Four of these meetings were held in different locations across Canada, providing Board members with the opportunity to meet with local clients, stakeholders and people from the community. These meetings have sparked a positive reaction and helped to raise BDC's profile across the country.

>> The seven committees of BDC's Board of Directors consider, review, monitor and supervise matters referred to them by the Board and make recommendations. Following are their main achievements for fiscal 2001.

Executive Committee

>> The Executive Committee, which handles important matters that come up between Board meetings, met 20 times in fiscal 2001. It approved loans and investments that exceeded the powers delegated to management and exercised other powers determined by the Board.

Chairperson: Cedric E. Ritchie

Members: Terry B. Grieve, V. Peter Harder
Peter G. Jollymore, Gregory Sorbara
Michel Vennat

Governance Committee

>> Members of the Governance Committee are responsible for matters related to the Bank's corporate governance practices. This includes determining the structure, mandate and membership of the Board's committees and recommending ways to enhance Board performance. The Committee implemented an evaluation process assessing the performance of the Board and each Committee in fiscal 2001. The analysis of results will help determine areas of progress and those requiring follow-up action.

Chairperson: Peter G. Jollymore

Members: Jennifer Corson, James A. Durrell
Cindy Sprague, Cedric E. Ritchie

Human Resources Committee

>> The Human Resources Committee supports the Bank's belief that its success lies in its people, and works to ensure BDC training, compensation, succession and Human Resources strategic plans are designed to attract and retain competent, productive and motivated employees. In addition to approving the annual compensation budget, the Committee reviews the Bank's succession plans, compensation policy and Human Resources strategic plans. In fiscal 2001, the Committee continued to monitor the Bank's progress in attracting and retaining qualified people, while ensuring that compensation remained competitive. The Committee also continued to support the Bank's commitment to being an "Employer of Choice."

Chairperson: Peter G. Jollymore

Members: Leo E. Cholakis, Jennifer Corson
Ann Cheryl Denny, Roger Plamondon
Gregory Sorbara, Cindy Sprague

Business Development Committee

>> This committee provides policy direction that helps the Board respond to changes in the Canadian marketplace. Its recommendations are based on continued monitoring of the evolution of industries, regional economies and the shifting environment. In fiscal 2001, the Committee reviewed the Bank's advertising campaign, communication plans and impact analyses as well as business development strategies and projects in areas such as Aboriginal banking and electronic commerce.

Chairperson: Gregory Sorbara

Members: Leo E. Cholakis, Jennifer Corson
Ann Cheryl Denny, James A. Durrell
Terry B. Grieve

Audit Committee

>> The Audit Committee oversees financial reporting, corporate financing, treasury management, performance measurement, internal control systems and codes of conducts. Its members help the Board safeguard the Bank's assets and manage its resources. It reviews the quarterly financial results and oversees the external auditors' involvement in the annual financial audit. It also reviews the work of the internal audit and inspection team and reviews the financial statements in the Annual Report prior to Board approval. In fiscal 2001, the Audit Committee also refined the Bank's methodology to determine the loan loss provisions.

Chairperson: Terry B. Grieve

Members: N. Murray Edwards, Roslyn Kunin
Oryssia Lennie, Cindy Sprague

Risk Management Committee

>> The Risk Management Committee ensures that policies and systems are in place to manage risks associated with the Bank's activities. In fiscal 2001, it reviewed risks involving the loan portfolio and treasury activities. In addition, the Committee oversaw the integrated risk management project.

Chairperson: Roslyn Kunin

Members: James A. Durrell, N. Murray Edwards
Roger Plamondon, Michel Vennat

Pension Fund Committee

>> The Pension Fund Committee monitors the pension fund's activities, ensures that the fund is administered and financed in accordance with applicable legislation, and ensures that any changes to the plan reflect the Committee's terms of reference. In fiscal 2001, the Committee met to review the pension fund's financial performance and stability. Members ensured that the Bank continued to receive excellent service from external suppliers administering the pension fund. For the pension plan year ending December 31, 2000, the fund will report a continued surplus.

Chairperson: Leo E. Cholakis

Members: Clément Albert, Roslyn Kunin
Louise Piché, Roger Plamondon
Cedric E. Ritchie, Michel Vennat

BOARD OF [redacted]

As at March 31, 2001

Directors

Leo E. Cholakis, L.L.B.
Managing Director
Kensington Building Ltd.
Winnipeg, Manitoba

Jennifer Corson
President
Renovators Resource Inc.
Halifax, Nova Scotia

Ann Cheryl Denny
Program Director for
Aboriginal Programming
University College of
Cape Breton
Sydney, Nova Scotia

James A. Durrell
President
Capital Dodge Chrysler
Jeep Ltd.
Ottawa, Ontario

N. Murray Edwards
President
Edco Financial Holdings Ltd.
Calgary, Alberta

Terry B. Grieve, CA
Principal
Ventures West
Management Inc.
Saskatoon, Saskatchewan

V. Peter Harder
Deputy Minister
Industry Canada
Ottawa, Ontario

Peter G. Jollymore
Company Director
Saint John, New Brunswick

Roslyn Kunin, Ph.D
President
Roslyn Kunin &
Associates Inc.
Vancouver, British Columbia

Oryssia Lennie
Deputy Minister
Western Economic
Diversification
Edmonton, Alberta

Roger Plamondon
Assistant Vice-President
Legal and Development
Costco Canada Inc.
Laval, Quebec

Cedric E. Ritchie, O.C.
Chairman of the Board
Business Development
Bank of Canada
Toronto, Ontario

Cindy Sprague
President and CEO
OmniMark Technologies Inc.
Ottawa, Ontario

Gregory Sorbara*
Partner
The Sorbara Group
Vaughan, Ontario

Michel Vennat, O.C., Q.C.
President
and Chief Executive Officer
Business Development
Bank of Canada

Officers

Michel Vennat, O.C., Q.C.
President and Chief
Executive Officer

André Bourdeau
Executive Vice-President
Financial Services

Luc Provencher
Executive Vice-President
Integrated Risk Management

Michel Ré
Executive Vice-President
Investments

Jean Carle
Senior Vice-President
Corporate Affairs

Michel Desjardins
Senior Vice-President
BDC Consulting Group

Jacques Lemoine
Senior Vice-President, Credit

Alan B. Marquis
Senior Vice-President
Finance and
Chief Financial Officer

Edmée Métivier
Senior Vice-President
Strategic Planning and
Resources Management

Clément Albert
Vice-President and Treasurer

Richard Morris
Vice-President, Audit and
Portfolio Risk Management

Andrée LeBlanc Daviault
General Counsel and
Corporate Secretary

* Our sincere appreciation is extended to Gregory Sorbara for the role he played in the development of the Bank. Mr. Sorbara resigned as of April 4, 2001.

OPERATING ENVIRONMENT

>> The Canadian economy is experiencing the longest growth period it has seen since the mid-1960s. Gross Domestic Product (GDP) growth in 2000 was 4.7 percent, higher than what was anticipated a year ago. These stronger results are primarily attributable to the continued strong performance of Canadian exports to the United States and a surge in capital and consumer spending. During the year, employment grew at a rate of 2.6 percent with a low unemployment rate of 6.8 percent.

>> The slowdown in the U.S. economy in 2001 will limit export growth. This year, however, the fiscal stimulus generated by tax cuts at both provincial and federal levels will shore up incomes in spite of weak employment growth. Moreover, in contrast to previous pre-recession periods, interest rates are relatively low, and this should provide a strong boost to the economy as the year wears on. As a result, economic growth is forecast to decelerate from last year's 4.7 percent pace to 2.4 percent in 2001 before rising to 3.4 percent in 2002. These positive predictions must be viewed with caution given that the situation presents some risks. The correction in the manufacturing sector to shrink inventory accumulation could be deeper, falling stock markets may have a stronger impact on household spending patterns, and the possibility of a second bout of Asian financial turbulence poses a threat to the current outlook.

>> Small businesses are major contributors to Canada's economic performance, especially when it comes to their contribution to GDP and to job creation. For instance, most of the growth in net business creation, which has accelerated since 1998, has been among firms with fewer than five employees. Various factors, such as increased outsourcing by larger corporations, underlie this phenomenon. In addition, new technologies, such as Web technologies, are leveling the playing field for many Canadian small businesses. Small businesses are also an important source of innovation and are often the driving force behind new products and technologies in fast growing industries. This is especially true for new, start-up companies which are among the strongest job creators and innovators in today's economy.

>> Globalization, free trade and new technologies are putting increased competitive pressure on Canada's small businesses. This pressure comes from both domestic and foreign companies that have adapted faster and more effectively to new market realities and technologies. To survive, small businesses have no choice but to improve their competitiveness, which, in the current environment, means improving productivity.

>> Improving productivity is largely dependent on the decisions small businesses make with respect to innovation and investment in their strategic development. Given the link between innovation and productivity, Canada also lags behind the U.S. economy on the innovation front. For example, Canadian private sector spending on R&D as a share of GDP is lower than in the U.S. Canadian companies, especially small businesses, are slower than their U.S. counterparts to adopt leading edge technologies and processes. This explains to some extent the Canadian productivity gap with the U.S.

>> The nature of the Canadian economy is continually evolving. For instance, the output of the information and communications technology sector has almost doubled since 1995 and now accounts for over 4 percent of total output in Canada. The increased importance of the technology sector in the Canadian economy combined with increased investment in machinery and equipment at levels comparable to those of the U.S. four years ago, bodes well for the productivity performance of the Canadian economy in the coming years. However, if Canada is to reduce the productivity gap with the U.S. over the long term, it must also have a dynamic venture capital industry, one that will be willing to take risks in investing in the development and commercialization of future innovations.

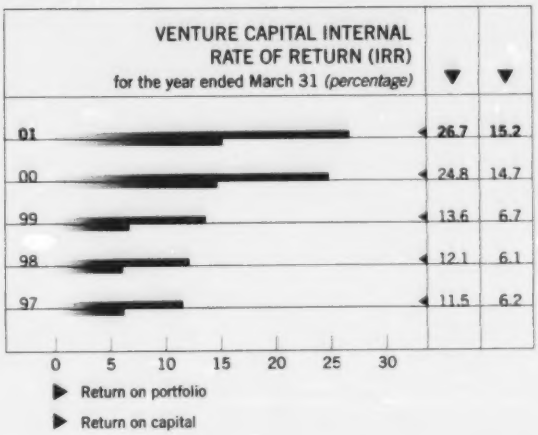
>> BDC, in its role of provider of lending, investing and consulting solutions to Canadian small businesses, focuses on the overall objective of making Canadians more productive and competitive in the knowledge-based economy. As small businesses adapt to increasing competition and technological change, and as new businesses and industries make their entry into the market over the next five to 10 years, not all companies will be able to rely on private sector sources to assist them with both financing and consulting advice. BDC will therefore continue to meet the needs of thousands of Canada's small businesses each year, especially those firms in the knowledge-based sector.

Financial performance

>> Consistent with the Bank's commitment to support entrepreneurship and focus on small businesses, 75 percent of BDC's lending activities were for loans of $250,000 or less, and including the Global Line of Credit®, 55 percent of activities were for amounts of $100,000 or less. Given that many of these loans are for start-up or very early stage businesses, they involve a greater risk profile, with a higher expected default frequency.

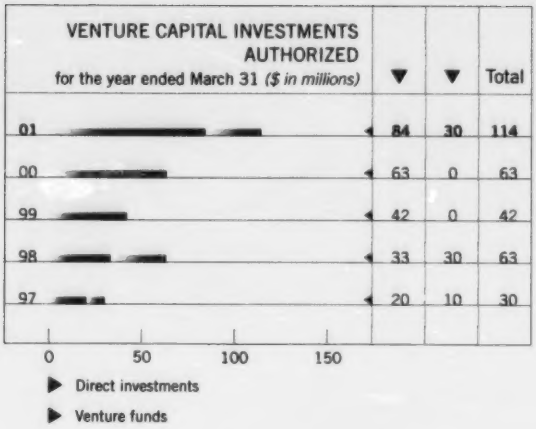
>> Venture capital investment activity experienced a steady demand, and 71 deals totaling $114 million were authorized during the year, compared to 62 deals for $63 million in fiscal 2000. The investment portfolio outstanding at March 2001 grew to $206 million at cost, from $145 million at March 2000.

>> During the year, a number of venture capital investments were divested, or taken over by other corporations. Prevailing market valuations during the year were high, and the gains on those divestitures generated significant Venture Capital operating profits of $56.2 million for fiscal 2001, compared to $80.0 million in fiscal 2000.



>> Internal Rate of Return (IRR) is a standard measure of performance in the venture capital industry. A moving ten-year average IRR of the Bank's portfolio of venture capital investments, before operating expenses, has grown from 11.5 percent in fiscal 1997 to 26.7 percent in fiscal 2001.

>> The Bank also measures its IRR based on the total capital injected including funding for investment activity in future fiscal years. Based on this measure, the IRR has grown from 6.2 percent in fiscal 1997 to 15.2 percent in fiscal 2001.



>> For the second consecutive year, Venture Capital operations contributed most (64 percent—fiscal 2001) of the Bank's net income of $88.3 million for the year.

>> Total lending authorized for fiscal 2001 was $1,538 million, 11 percent above the Corporate Plan objective. The risk profile of the Bank's loan portfolio continues to be high, and includes an increasing number of Subordinate Financing transactions. Consequently, and in line with industry practice, the Bank increased the general allowance for credit losses, resulting in a provision expense of $106 million, compared to $94 million in fiscal 2000.

>> BDC Consulting Group's performance in 2001 was similar to fiscal 2000. Revenues of $17.7 million were lower than the $19.4 million in fiscal 2000, while the net operating losses were $5.1 million compared to $4.2 million in 2000.

>> The Bank again reported a strong net income for fiscal 2001, $88.3 million compared to $101.1 million in 2000, and to the Corporate Plan objective of $42 million. Consequently, retained earnings net of dividends increased by $74.5 million, thus enabling the Bank to further support the changing requirements of Canadian small business.

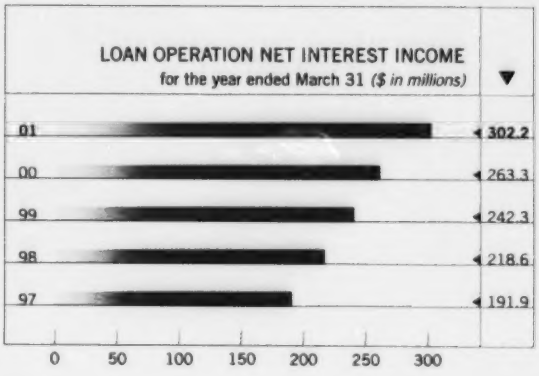
>> The Government of Canada invested $65 million in preferred shares in fiscal 2001 to further support growth in the Bank's investment portfolio.

Income statement

LOAN OPERATIONS

Net interest income

>> The loan portfolio produces the Bank's gross interest income, reflecting the interest rates charged to customers. This portfolio is largely funded by the Bank's borrowings, on which the cost of funding generates the Bank's interest expense. In fiscal 2001, net interest income increased by 15 percent to $302 million, while the net margin improved from 5.6 percent to 5.8 percent of the average portfolio.

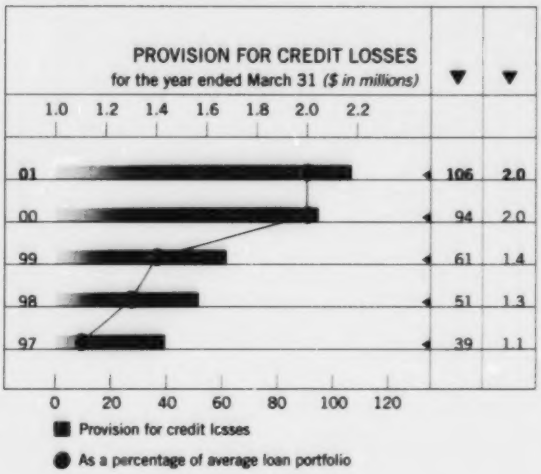


>> At year end, the loan portfolio amounted to $5.4 billion, compared to $4.9 billion a year previously, and ahead of the Corporate Plan objective of $5.3 billion. In recognition of the high degree of risk in the portfolio, the Bank is enhancing its portfolio risk management processes to improve the identification and monitoring of risk.

Provision for credit losses

>> The Bank's commitment to the small business sector and emphasis on KBIs and start-up operations involve an increased probability of default. Accordingly, the Bank maintains a prudent level of allowance for credit losses. The amount provided for credit losses in fiscal 2001 was maintained at 2.0 percent of the average portfolio. That charge of $106 million for fiscal 2001 includes an additional general provision of $15 million more than the Corporate Plan objective.

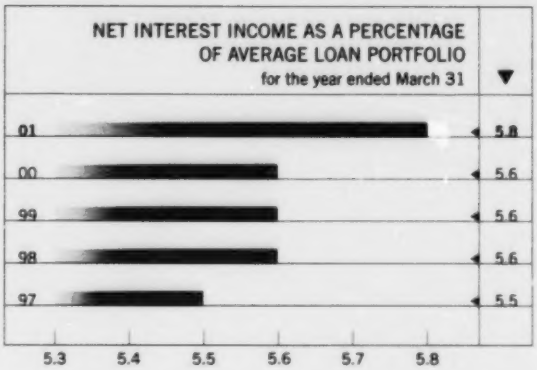
>> The allowance for credit losses, at $358 million, amounts to 6.6 percent of the portfolio and is in line with the Bank's long-term loan loss experience.



Operating and administrative expenses

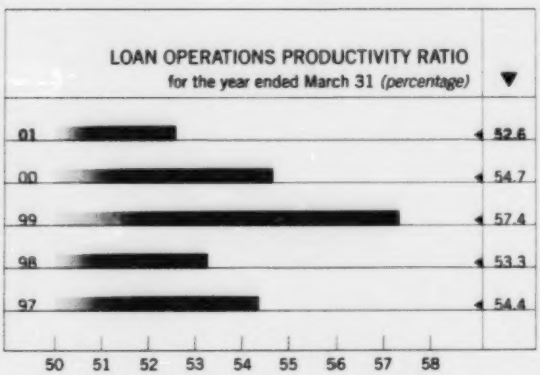
>> Loan operating expenses at $159 million were in line with the Corporate Plan, an increase of 10 percent over the previous year and proportionate to the increase in lending activity. Staffing levels in Ontario and Western Canada were increased to better respond to customers' needs, and overall productivity was maintained at the fiscal 2000 level. Training programs were focused on enhancing customer service and employee commitment.

>> Ongoing funding was committed to the corporate communications and advertising program to increase public awareness of the Bank's role, operations and services, and to better serve the needs of Canadian small business entrepreneurs.



>> The productivity ratio continues to improve from 55 percent last year to 53 percent in fiscal 2001. This important measure compares operating expenses to net interest income, with a lower ratio indicating higher productivity. The Bank continues to strive for the right balance between its commercial objectives and its public policy role.

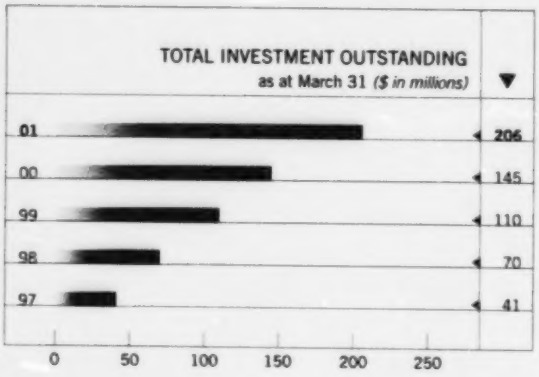
>> The information technology infrastructure software and applications were upgraded during fiscal 2001 to enable employees to operate outside the Bank's premises, and respond more rapidly to customers' needs.



VENTURE CAPITAL OPERATIONS

>> The increased level of investment activity continues to build the portfolio, to $206 million from $32 million in five years. Divestitures during the year represented the major part of the $56 million income for a second strong year, following the $80 million earned last year. The value of the portfolio was also reduced by $13 million through write-downs, an amount similar to last year. At March 2001, unrealized gains were estimated at $77 million, which will be brought into income when the investments are divested in subsequent years, if the market conditions prevail.

>> Operating and administrative expenses of $14.7 million include Venture Capital's proportionate share of the Bank's administrative expenses, and the accrual for the employee long-term incentive program which is based on net realized gains on the sale of investments.



BDC CONSULTING GROUP OPERATIONS

>> Consulting services provided to Canadian businesses produced third party revenues of $17.7 million, slightly higher than the equivalent revenue in fiscal 2000, which last year had included an adjustment of $2.3 million for inter-company services. The net operating loss of $5.1 million compares to the $4.2 million loss in fiscal 2000. The cost recovery rate of 78 percent was below the 82 percent of fiscal 2000, reflecting the inter-company adjustment in that year.

>> Pursuant to the Bank's decision in September 1996 to fund the deficit from Consulting Operations entirely from internal resources, no Government appropriation has been provided since that time. The number of projects undertaken by BDC Consulting Group increased from 5,009 to 5,660 in fiscal 2001.

Comparison with 2001 Corporate Plan

>> Plan objectives were surpassed, with Venture Capital contributing a net income of $56 million, versus projections of $5 million, with two major divestitures generating most of the gains. Loans operations earned $37 million compared to projections of $40 million, after providing an additional $15 million for potential credit losses.

>> Loan portfolio growth was slightly better than planned, reaching $5.4 billion versus $5.3 billion, and margins improved, earning an additional $16 million of net interest income. Operating and administrative expenses of $159 million increased proportionately to the increased volume of activity.

>> Return on common equity of 12.6 percent consequently exceeded the plan objective of 6.0 percent.

2002 Corporate Plan

>> The Corporate Plan projects net income at $59 million of which $45 million will be contributed by Loans. Net income from Venture Capital will return to more normal levels at $17 million, after the exceptional divestitures that took place in fiscal 2000 and 2001. BDC Consulting Group will continue its march toward breakeven with a reduced loss of $3 million.

>> Lending authorizations are expected to grow by 7 percent to $1,605 million. The Loans portfolio will grow to $5,855 million representing an increase of $430 million. The Bank will improve its productivity ratio by realizing economies of scale and continuing to improve its processes. The Bank's capital base will increase to $973 million in order to support the Bank's financing to small business.

Risk management

OVERVIEW

>> The Bank has a well-established structure for managing risks arising from its activities. The Board has also established a Risk Management Committee to monitor the Bank's various risk exposures and compliance with the Financial Risk Management Guidelines for Crown corporations, issued by the Minister of Finance.

>> The Bank's exposure to risk is composed of four major types: Credit Risk, Market Risk, Liquidity Risk, and Operational Risk.

>> The Asset and Liability Committee (ALCO), which includes senior officers of the Bank, and the Bank's credit risk function, ensure financial risks are responsibly managed to protect the Bank's assets. ALCO is also responsible for periodically reviewing the policies governing credit, market and liquidity risks related to the Bank's operations. These policies are approved by the Board of Directors.

Types	Sources
Credit Risk	Lending activity, liquidity investments, hedging with derivative instruments
Market Risk	Movements in equity prices, interest and foreign exchange rates
Liquidity Risk	Availability of funds in the financial markets
Operational Risk	Systems failure, Human Resources, inadequate processes

CREDIT RISK

Risk concentration • Loan portfolio

>> The loan portfolio has grown at a compounded annual rate of 10 percent over the past five years and now amounts to $5.4 billion. That growth is matched by an increase in the number of loans outstanding, as the Bank continues to focus on the needs of small businesses, while also helping them expand into subsequent phases of business development. The loan portfolio is extensively diversified both geographically and by industry sector, reflecting the Bank's responsiveness to customer demand. Accordingly, there is no significant concentration of credit risk on either of these issues. However, given the focus on start-up and early stage investments, and increased lending to KBIs, the proportion of higher risk loans is high and continues to increase.

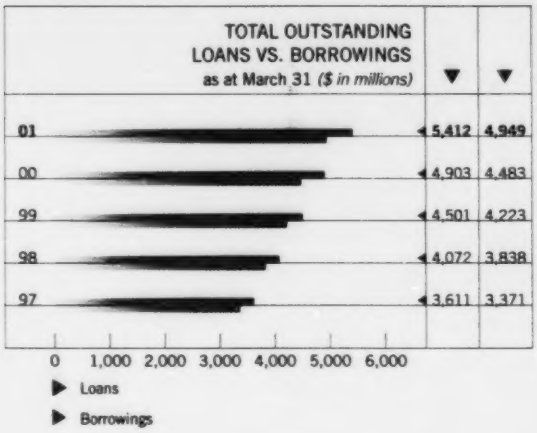
>> As the Bank operates independently of any external guarantees or loss insurance, it assumes the entire risk on such transactions and ultimately will experience losses on a certain proportion of them. BDC Consulting Group helps manage that risk exposure by providing external expertise to improve the businesses' probability of success.

Credit quality • Loan portfolio

>> Impaired loans are those for which, in the opinion of management, there is no reasonable likelihood of collecting the full amount outstanding. Such loans amounted to $272 million at March 2001, compared to $235 million a year ago. A specific allowance for credit losses of $96 million has been established to cover the exposure on these loans. As the portfolio comprises a large volume of small loans, it is not possible to attribute ratings of independent credit agencies.

>> Performing loans are regularly reviewed to reflect their current credit quality, and graded according to the Bank's own risk rating criteria. Loans rated high risk represent a significant proportion of the portfolio, thus increasing the Bank's exposure to potential loss, and necessitating a provision charge for fiscal 2001 at 2.0 percent of the average porfolio, the same rate as fiscal 2000.

>> General allowances are maintained to mitigate the ultimate exposure to loss from groups of performing loans, based on historical performance, modelling techniques, estimated credit losses for the current phase of the economic cycle and judgement. The total general allowance at March 2001 was $262 million, $55 million higher than a year ago.



Risk concentration • Investments

>> The Bank has a restrictive policy governing its liquid investment activity. Short-term investments in deposits and money market instruments are contracted with top credit quality institutions for terms of less than one year. Longer term investments are permitted in securities issued or guaranteed by the Canadian or provincial governments, and by financial institutions that are members of the Canadian Payments Association. The risk of potential loss deriving from investment activity is very low considering that 90 percent of the investments had a term of less than one year as at March 31, 2001.

>> Venture capital investments represent by nature, a high credit risk. The Bank monitors such investments continuously, and divests its holdings on a phased basis, taking into account market conditions and applicable restrictions on such transactions.

RISK EXPOSURE IN SHORT-TERM INVESTMENTS AND SECURITIES
as at March 31, 2001 *($ in millions)*

Credit Rating*	Term to maturity: Less than 1 year	1 to 3 years	3 years and over
AAA	171.0	25.6	—
AA- to AA+	343.8	—	42.2
A- to A+	96.2	—	—
Total	611.0	25.6	42.2

* From major credit agencies.

Derivative instruments

>> With regard to derivative instruments, the potential loss resides in the creditworthiness of the counterparties. The credit risk exists only when these instruments have a positive fair value.

>> The Bank monitors and manages the credit risk associated with derivatives by applying a credit limit policy in all dealings in the derivatives market. Global contractual limits are established for each counterparty to off-balance sheet transactions. They are reviewed periodically to ensure adherence by the counterparties to the Bank's standards which are fully in line with those issued by the Department of Finance to Crown corporations.

>> To limit its credit exposure, the Bank enters into netting agreements with counterparties. The following table displays the exposure as at March 31, 2001 after the Bank had concluded these agreements.

COUNTERPARTY CREDIT RISK EXPOSURE
as at March 31, 2001 *($ in millions)*

Credit Rating*	Term to maturity: Less than 1 year	1 to 3 years	3 years and over
AAA	39.2	—	—
AA- to AA+	35.6	28.8	14.0
A- to A+	4.3	—	—
Total	79.1	28.8	14.0

* From major credit agencies.

MARKET RISK

>> Market risk is defined as the risk that a loss may result from a change in the value of a financial instrument. It includes exposure to interest rates, foreign exchange and equity prices.

Foreign exchange risk

>> Foreign exchange risk is the exposure to potential adverse impact on net interest income due to movements in foreign exchange rates. The risk arises when borrowings are contracted in foreign currencies to fund assets in Canadian dollars.

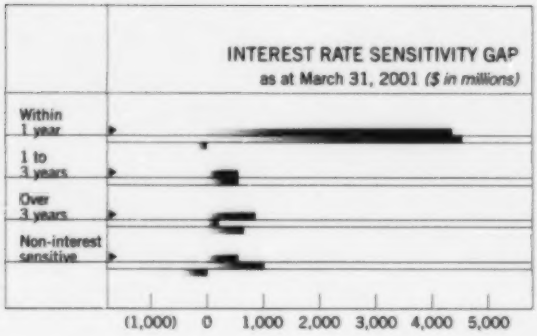
>> The Bank fully hedges all of its foreign currency transactions with cross-currency swaps and foreign exchange forward contracts, thus eliminating any risk deriving from fluctuations in exchange rates.

Interest rate risk

>> The Bank's loan portfolio of $5.4 billion is financed largely by borrowings of $5.0 billion on the open market, which inevitably creates an exposure to changing interest rates. That risk is managed by the Bank by closely matching the maturities of long-term notes, and the mix between short and long-term notes, against the varying maturities of the Bank's loan portfolio. At March 31, 2001, 36 percent of the Bank's loan portfolio represented loans with fixed interest rates, compared to 41 percent the previous year.

>> The Bank does not take funding positions nor speculate in any way, and hedges foreign currency exposure into Canadian dollars to mitigate that risk.

>> Although the Bank's borrowings are selected to match the maturity and the interest rate sensitivity of its assets, interest rate gaps may arise due to shifts in the loan portfolio. The following chart shows the interest rate gap position of the Bank as at March 31, 2001, after considering the effect of derivative instruments. The chart is not reflective of positions during subsequent periods.



	Total assets	Total liabilities and shareholder's equity	Gap
Within 1 year	4,318	4,499	(181)
1 to 3 years	535	539	(4)
Over 3 years	846	197	649
Non-interest sensitive	527	991	(464)

>> The Bank also uses risk measurement and analysis techniques when assessing the impact of funding strategies. These techniques include sensitivity analysis which measures the impact of interest rate changes on the Bank's current earnings and in the economic value of its assets and liabilities. The following table displays the impact on net interest income of a 1 percent increase in rates across the entire yield curve.

IMPACT OF A 1 PERCENT CHANGE IN RATES ON THE NET INTEREST INCOME
as at March 31, 2001 *($ in millions)*

	Within 1 year	1 to 3 years	Over 3 years	Non interest sensitive	Total
Interest rate gap	(181.0)	(4.0)	649.0	(464.0)	—
Impact on net interest income	4.2	(0.6)	(27.2)	—	(23.6)
Impact as a percentage of net interest income	1.4%	(0.2%)	(9.1%)	—	(7.9%)

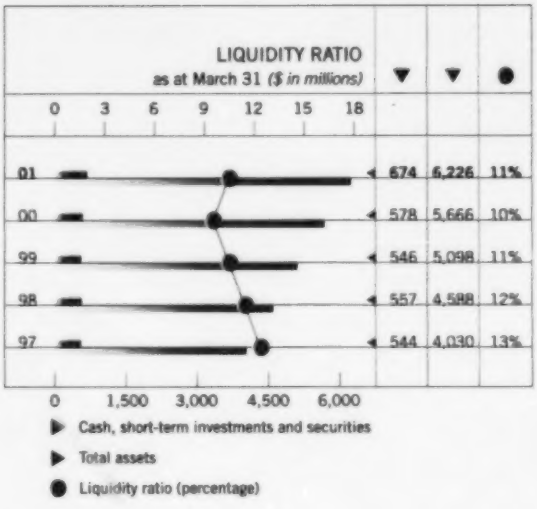
Equity prices

>> Venture capital investments include certain investments in publicly traded companies, which are consequently subject to market fluctuations. The Bank controls such risks by conservative valuation, regular monitoring and a phased divestiture policy.

LIQUIDITY RISK

>> Liquidity risk is the risk that the Bank finds itself unable to raise funds at a reasonable cost under volatile market conditions to meet its cashflow obligations as they fall due.

>> The Bank manages liquidity to ensure availability of funds at all times. The Bank has established a liquidity policy that requires close monitoring of operational cash flows and sets specific limits for day-to-day cash management. The policy also emphasizes having top quality security holdings readily marketable to meet short-term cash requirements. Diversification of sources of funds through international borrowing programs is also a key cash management strategy that the Bank applies to maintain stability in the liquidity position.



OPERATIONAL RISK

>> Operational risk is the potential for loss deriving from information systems failure, human error, breakdown of processes and any other risk not covered by market and credit risks. Among measures that the Bank takes to mitigate this risk, comprehensive policies and procedures have been established governing information process, lending operations, staff management and other key operational functions.

>> The risk associated with technology and telecommunication failures is managed through programs for replacement of computer systems and equipment, and through appropriate control procedures to ensure efficient information. The Bank has a comprehensive business recovery planning process in place to ensure continuity in its key business functions in case of disaster.

>> In its approach to managing the risk associated with human resources, the Bank encourages performance in competency and favours development of employees' skills. The Bank has established a training and development program for staff and introduced various incentives to encourage high performance.

>> The risk inherent in processes resides in incorrect reporting of information, incomplete transactions and ineffective functional routines. The Bank manages this risk by ensuring that principles of segregation of duties and clear delegation of authority are applied in day-to-day operations.

Balance sheet analysis

>> Driven by an 11 percent growth in the loans (net of allowance for credit losses) and venture capital portfolio, total assets increased to $6.2 billion, compared to $5.7 billion at March 2000.

>> Net outstanding loans, venture capital investments, cash and short-term assets aggregating $5.9 billion*, which comprise the Bank's principal assets, were funded by borrowings of $5.0 billion and shareholder's equity of $0.9 billion. The net portfolio growth of $507 million during fiscal 2001 was funded by borrowings of $466 million, and by $65 million of additional preferred shares, in addition to the growth in retained earnings.

Capital adequacy

>> The Bank applies certain ratios between debt and equity according to various categories of financing, to determine the adequacy of its capital base:

Commercial Lending	10:1
Subordinate Financing	4:1
Venture Capital	1:1

>> During fiscal 2001, the Bank operated within those ratios. The Government of Canada contributed an additional share capital of $65 million to support future planned growth in the Bank's venture capital portfolio.

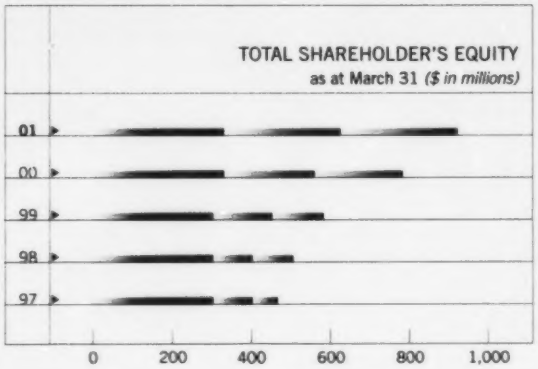
Shareholder's equity

>> Retained earnings increased by $74 million to $297 million, and preferred share capital grew by $65 million during fiscal 2001. Total shareholder's equity at year end was $923 million compared to $784 million last year, which by increasing the capital base will enable the Bank to increase its support for the growing needs of small businesses. For the fifth consecutive year, BDC has declared a dividend. The amount of the dividend for fiscal 2001 is $13.8 million, on its preferred shares payable to the Government of Canada.

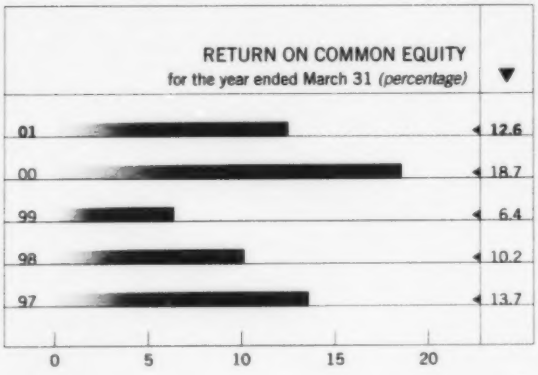
* Shares are held by persons subject to section 33 of the Business Development Bank of Canada Act in Toon Boon Technologies Inc., a $3.4 million investment and in Alliance Medical Inc., a $380,000 loan.

>> The Bank operated within all statutory limits for the year ended March 31, 2001. At year end, the debt-to-equity ratio was 5.4:1.

>> Net income of $88.3 million provided a return on average common shareholder's equity of 12.6 percent, 6.1 percent lower than in fiscal 2000. This decrease is due to higher levels of equity in fiscal 2001 and stronger performance in fiscal 2000.



	Common shares	Preferred shares	Retained earnings	Total shareholder's equity
01	**331.2**	**295.0**	**297.1**	**923.3**
00	331.2	230.0	222.6	783.8
99	303.4	150.0	130.4	583.8
98	303.4	100.0	103.7	507.1
97	303.4	100.0	64.2	467.6



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

>> The financial statements of the Business Development Bank of Canada were prepared and presented by management in accordance with Canadian generally accepted accounting principles on a basis consistent with that of the preceding year. The information contained therein normally includes amounts requiring estimation which have been made based upon informed judgement as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the financial statements.

>> In discharging its responsibility for the integrity, fairness and quality of the financial statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by audit and inspection staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice-President, Audit and Inspection and the independent auditors have full and free access to the Audit Committee of the Board of Directors which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee which is comprised of Directors who are not employees of the Bank, is responsible for reviewing and approving the audited annual financial statements.

>> The Bank's independent auditors, KPMG LLP, Chartered Accountants and the Auditor General of Canada have audited the Bank's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

Michel Vennat
President and Chief Executive Officer

Alan B. Marquis
Senior Vice-President, Finance and Chief Financial Officer

Montreal, Canada
May 25, 2001

AUDITORS' REPORT

To the Minister of Industry:

>> We have audited the balance sheet of the Business Development Bank of Canada as at March 31, 2001 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

>> We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

>> In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, except for the change in the method of accounting for employee future benefits as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

>> Further, in our opinion, the transactions of the Bank that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank.

KPMG LLP
Chartered Accountants

Montreal, Canada
May 25, 2001

Sheila Fraser, FCA
Interim Auditor General of Canada

Ottawa, Canada
May 25, 2001

BALANCE SHEET as at March 31 *($ in thousands)*	2001	2000
ASSETS		
Cash and short-term investments (Note 3)	**$ 605,955**	$ 493,903
Securities (Note 4)	**67,808**	83,752
	673,763	577,655
Loans, net of allowance for credit losses (Notes 5 and 6)	**5,054,254**	4,608,188
Venture capital investments (Note 7)	**206,360**	145,107
	5,260,614	4,753,295
Capital assets, net of accumulated amortization	**32,318**	39,879
Other assets (Note 8)	**258,823**	295,504
	291,141	335,383
TOTAL ASSETS	**$ 6,225,518**	$ 5,666,333
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued liabilities	**$ 55,626**	$ 45,045
Accrued interest on borrowings	**152,698**	240,697
	208,324	285,742
Borrowings (Note 9)		
Short-term notes	**2,604,399**	1,965,781
Long-term notes	**2,344,722**	2,516,964
	4,949,121	4,482,745
Other liabilities (Note 10)	**144,769**	114,020
SHAREHOLDER'S EQUITY		
Share capital (Note 11)	**598,400**	533,400
Contributed Surplus	**27,778**	27,778
Retained earnings	**297,126**	222,648
	923,304	783,826
Contingent Liabilities and commitments (Note 16)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**$ 6,225,518**	$ 5,666,333

The accompanying Notes to Financial Statements are an integral part of this statement.

Approved by the Board:

Terry B. Grieve,
Director

Michel Vennat,
Director

STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended March 31 *($ in thousands)*

	2001	2000
FINANCIAL SERVICES		
Loans		
Interest income	$ 527,419	$ 453,461
Interest expense (Note 12)	225,194	190,103
Net interest income	302,225	263,358
Provision for credit losses (Note 6)	106,000	94,000
Net interest income after provision for credit losses	196,225	169,358
Operating and administrative expenses (Note 13)	158,971	144,038
Income from Loans	37,254	25,320
Venture Capital		
Interest and dividends	5,870	539
Net realized gains on investments	75,756	112,708
Other	2,549	1,053
Investment income	84,175	114,300
Write-down of investments	13,306	14,720
Net investment income	70,869	99,580
Operating and administrative expenses (Note 13)	14,701	19,541
Income from Venture Capital	56,168	80,039
INCOME FROM FINANCIAL SERVICES	93,422	105,359
CONSULTING GROUP		
Revenue	17,724	19,396
Operating and administrative expenses (Note 13)	22,824	23,650
LOSS FROM CONSULTING GROUP	(5,100)	(4,254)
NET INCOME	88,322	101,105
RETAINED EARNINGS		
Beginning of year	222,648	130,432
Dividend on preferred shares	(13,844)	(8,889)
End of year	$ 297,126	$ 222,648

The accompanying Notes to Financial Statements are an integral part of this statement.

STATEMENT OF CASH FLOWS for the year ended March 31 *($ in thousands)*	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 88,322	$ 101,105
Adjustments to determine net cash flows:		
Net realized gains on venture capital investments	(75,756)	(112,708)
Provision for credit losses and write-down of venture capital investments	119,306	108,720
Amortization of capital assets	11,785	11,865
Change in interest receivable on loans	(3,932)	895
Change in accrued interest on borrowings	14,797	(13,668)
Translation adjustment on borrowings and securities	18,025	33,129
Net increase (decrease) in unrealized gains and amounts receivable on derivative financial instruments	49,403	(122,239)
Net (decrease) increase in unrealized losses on derivative financial instruments	(77,223)	101,445
Net change in other assets and other liabilities	3,035	1,551
NET CASH PROVIDED BY OPERATING ACTIVITIES	147,762	110,095
CASH FLOWS USED IN INVESTING ACTIVITIES		
Disbursements for loans	(1,710,228)	(1,443,950)
Disbursements for venture capital investments	(83,508)	(69,323)
Repayments of loans	1,162,094	1,003,274
Proceeds on sales of venture capital investments	84,705	128,984
Net acquisition of capital assets	(4,224)	(12,500)
NET CASH USED IN INVESTING ACTIVITIES	(551,161)	(393,515)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of long-term notes	511,542	1,040,462
Repayment of long-term notes	(672,561)	(531,728)
Net change in short-term notes	604,247	(281,402)
Net change in securities	21,067	3,064
Proceeds from issue of preferred shares	65,000	80,000
Contributed cash on transfer of Cultural Industries Development Fund	—	17,634
Dividend paid on preferred shares	(8,889)	(6,010)
Other	(4,955)	(2,879)
NET CASH PROVIDED BY FINANCING ACTIVITIES	515,451	319,141
NET INCREASE IN CASH AND SHORT-TERM INVESTMENTS	112,052	35,721
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	493,903	458,182
CASH AND SHORT-TEM INVESTMENTS AT END OF YEAR	$ 605,955	$ 493,903
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Amount of interest paid in the year	$ 210,397	$ 203,771

The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

March 31, 2001 *($ in thousands except as otherwise indicated)*

1. ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

>> The Business Development Bank of Canada (BDC) is a Crown corporation which was established by an Act of Parliament on December 20, 1974 as the Federal Business Development Bank, and continued under its current name by an Act of Parliament on July 13, 1995. The Bank is wholly owned by the Government of Canada and is exempt from income taxes.

>> The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of financial and consulting services complementary to those of commercial financial institutions. The Bank offers to Canadian companies services tailored to meet the current needs of small and medium-sized businesses while earning an appropriate return on investment capital, which is used to further the Bank's activities.

>> To finance these objectives, the Bank issues debt instruments which are secured by the Government of Canada. *The Business Development Bank of Canada Act* also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments.

2. SIGNIFICANT ACCOUNTING POLICIES

>> The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. As such, the preparation of financial statements requires that management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ from those estimates. Significant estimates include allowances for losses on loans and consideration of write-downs and disclosure of fair values of venture capital investments. A variation in the circumstances or economic conditions under which these estimates are made could result in a significant change in these management judgements. The significant accounting policies used in the preparation of these financial statements are summarized below.

Securities

>> Debt securities are carried at amortized cost with premiums and discounts amortized over the period to maturity. Where there has been a decline in value of a security that is other than temporary, the carrying value of the security is appropriately reduced. Interest revenue, gains and losses on disposal and adjustments to record any impairment in value that is other than temporary are netted against interest expense.

Loans

>> Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired.

>> Loans are classified as impaired when there is a deterioration in credit quality to the extent that the Bank no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

>> For impaired loans measured on the basis of expected future cash flows, as explained under *Allowance for credit losses*, the increase in present value attributable to the passage of time is recorded as interest income.

Allowance for credit losses

>> The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the Bank's portfolio. It reflects management's best estimate of losses existing in the loan portfolio at the balance sheet date. The allowance is increased by an annual provision for credit losses which is charged against income and is reduced by write-offs, net of recoveries.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

>> The allowance for credit losses is comprised of specific and general allowances.

>> Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent in the loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances as well as subsequent changes thereto are recorded through the provision for credit losses as an adjustment to the specific allowance.

>> The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and management's assessment of general economic and business conditions affecting the lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

Venture capital investments

>> Venture capital investments are recorded at cost, whereby interest and dividends are included in income when received. Investments in venture capital and seed capital funds over which the Bank has joint control or significant influence are accounted for using the proportionate consolidation or equity accounting method, respectively. Under these methods, the Bank accrues its share of the undistributed income or expenses of the funds. Gains or losses on disposal of investments are recognized in income when realized. However, when the value of an investment is permanently impaired, the investment is written down to recognize the loss.

>> Non-cash consideration received on disposal of investments is presented as temporary investments within venture capital investments and recorded at the lower of the value at the date of the sale of the venture capital investment and current market value at the balance sheet date.

Capital assets and amortization

>> Capital assets are recorded at cost and amortized over their estimated useful lives, using the straight-line method as follows:

• Computer equipment and software	3-7 years
• Furniture and fixtures	5 years
• Leasehold improvements	over the term of the lease, maximum 15 years

Premiums, discounts and debt issue expenses

>> Premiums, discounts and expenses related to tne issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and are charged to interest expense.

Translation of foreign currencies

>> Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year.

Derivative financial instruments

>> The Bank enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. These financial instruments are used as hedges for the sole purpose of matching assets and liabilities. These derivatives are accounted for on an accrual basis with the related revenue or expense recognized over the life of the hedged position as an adjustment to interest expense.

>> Premiums paid or received with respect to derivative financial instruments are deferred and amortized to interest expense over the lives of the derivative contracts.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee future benefits

>> The Bank maintains defined benefit pension plans for eligible employees. Periodic valuations are performed by independent actuaries to determine the present value of the accrued pension benefits using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, compensation escalation, retirement ages of employees and other factors. The discount rate used to determine present value is based on market interest rates for long-term high-quality debt instruments.

>> The net pension expense or credits is comprised of the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on pension liabilities, expected income on plan assets based on an average of market-related values, the amortization of experience gains or losses in respect of the plan over the expected average remaining service life of the active employees, and any adjustments arising from changes to the plan or the plan assumptions.

>> Amortization of actuarial gains or losses is recognized in the expense for the year if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the accrued benefit obligation or 10% of the fair market value of the plan assets, whichever is greater. Amortization corresponds to the excess divided by active employees' expected average remaining service life.

>> The Bank also provides life insurance and health care benefits for eligible retirees as well as other employee and retiree benefits which are accrued based on actuarial valuations.

>> Effective April 1, 2000, the Bank prospectively adopted the new accounting standard issued by the Canadian Institute of Chartered Accountants with respect to employee future benefits. Previously, the discount rate used to determine the present value of accrued benefits was based on long-term investment yields. The cumulative effect of this change (transitional obligation or asset) is being recognized in income over the active employee's expected average remaining service life. The change did not have a material effect on net income for the current year.

3. CASH AND SHORT-TERM INVESTMENTS

>> Cash and short-term investments comprise bank account balances, net of cheques outstanding, and short-term bank deposits for terms less than 90 days.

4. SECURITIES

	Term to maturity			
	1 to 3 years	Over 3 years	**2001 Total**	2000 Total
Canada				
Carrying value	$ 25,605	$ —	**$ 25,605**	$ 44,323
Yield	6.59%	—	**6.59%**	6.96%
Fair value	$ 26,132	$ —	**$ 26,132**	$ 45,197
Financial Institutions				
Carrying value	$ —	$ 42,203	**42,203**	39,429
Yield	—	5.80%	**5.80%**	6.32%
Fair value	$ —	$ 43,165	**43,165**	39,471
Total				
Carrying value	$ 25,605	$ 42,203	**$ 67,808**	$ 83,752
Yield	6.59%	5.80%	**6.10%**	6.66%
Fair value	$ 26,132	$ 43,165	**$ 69,297**	$ 84,668
Swap Contracts				
Notional amount	$ 24,950	$ 40,000	**$ 64,950**	$ 86,180
Adjusted yield[1]	5.32%	5.45%	**5.40%**	5.37%
Amounts denominated in foreign currencies included in the carrying value of securities				
		US dollars 36,964		
		GB pounds 2,000		$ 58,093
		US dollars 36,964	**$ 58,240**	

(1) After adjusting for the effect of related derivatives (see Note 15).

4. SECURITIES (continued)

>> All securities held as at March 31 were issued by Canadian entities at fixed rates. Yields are based upon carrying values and contractual interest rates adjusted for amortization of premiums and discounts. Term to maturity classifications are based upon the contractual maturity of the security. Fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, the Bank has entered into cross-currency interest rate and interest rate swaps to adjust the interest rate and the foreign exchange risks associated with the above securities.

5. LOANS

>> The following table summarizes the repricing or maturity dates, whichever is earlier, and the effective interest rates of loans outstanding as at March 31. The effective interest rates are computed on a weighted average basis.

	2001		2000	
Performing — floating	$ 3,282,891	9.45%	$ 2,736,660	9.76%
Performing — fixed				
Under one year	415,658	9.67%	454,423	9.78%
1 to 2 years	220,343	9.28%	267,299	9.47%
2 to 3 years	364,963	9.37%	209,024	9.20%
3 to 4 years	174,633	9.66%	394,291	9.37%
4 to 5 years	235,669	9.74%	163,885	9.62%
Over 5 years	446,009	9.22%	442,275	8.89%
Performing	5,140,166		4,667,857	
Impaired	272,242		235,135	
Total loans	5,412,408		4,902,992	
Allowance for credit losses				
General	(261,982)		(206,739)	
Specific	(96,172)		(88,065)	
	(358,154)		(294,804)	
Loans, net of allowance for credit losses	$ 5,054,254		$ 4,608,188	

>> The concentrations of the total loans outstanding by province and territory as at March 31 are set out in the table below. The Bank believes it does not have any significant concentrations in any individual or related group of clients.

Geographic Distribution	2001		2000	
Newfoundland	$ 188,830	3.5%	$ 164,000	3.3%
Prince Edward Island	41,140	0.8%	43,840	0.9%
Nova Scotia	112,203	2.1%	105,974	2.1%
New Brunswick	213,562	4.0%	182,547	3.7%
Quebec	2,239,607	41.4%	2,024,962	41.3%
Ontario	1,519,773	28.1%	1,297,346	26.5%
Manitoba	91,788	1.7%	94,612	1.9%
Saskatchewan	98,984	1.8%	100,678	2.1%
Alberta	309,950	5.7%	272,127	5.6%
British Columbia	543,699	10.0%	562,403	11.5%
Yukon	24,093	0.4%	27,603	0.6%
Northwest Territories and Nunavut	28,779	0.5%	26,900	0.5%
Total loans outstanding	$ 5,412,408	100.0%	$ 4,902,992	100.0%

6. ALLOWANCE FOR CREDIT LOSSES

>> The following table summarizes the changes in the allowance for credit losses as at March 31.

	2001	2000
Balance at beginning of year	$ 294,804	$ 252,448
Write-offs	(40,130)	(50,704)
Interest income due to accretion	(4,885)	(2,918)
Recoveries	2,365	1,978
	252,154	200,804
Provision for credit losses	106,000	94,000
Balance at end of year	$ 358,154	$ 294,804

7. VENTURE CAPITAL INVESTMENTS

>> The Bank maintains a portfolio of venture capital investments which is focused on companies having promising competitive positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The Bank believes it does not have any significant concentrations in any individual client.

	2001		2000	
Industry Sector	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Biotechnology/Medical/Health	$ 65,745	$ 95,830	$ 48,140	$ 81,344
Computer	38,530	41,712	27,469	73,557
Venture Capital Seed Funds	28,406	28,406	20,231	20,231
Venture Capital Funds	250	9,050	2,104	9,604
Electronics	27,139	40,728	18,519	47,319
Communications	34,235	55,410	16,704	32,795
Industrial	3,658	3,658	4,663	4,914
Consumer-related	2,538	2,574	2,538	2,574
Other	5,859	6,438	4,739	6,405
Venture capital investments	$ 206,360	$ 283,806	$ 145,107	$ 278,743

(See Note 14 for determination of fair value)

>> The preceding table includes $11,829 of temporary investments, with a fair value of $11,829.

>> Investments are generally held 4 to 7 years. Divestitures are made through listings of investee shares on public markets or the sale of the Bank's shares to other existing shareholders or to third parties. Investment yields vary from year to year due to the amount and timing of dividend and interest income received and divestitures made. Below is a summary of the venture capital portfolio by type of investment.

(Carrying Value)	2001	2000
Common shares	$ 114,491	$ 79,265
Preferred shares	77,040	51,213
Debentures	14,829	14,629
Venture capital investments	$ 206,360	$ 145,107

7. VENTURE CAPITAL INVESTMENTS (continued)

>> The Bank has invested in T²C² Bio, T²C² Info, Western Technology and Eastern Technology seed funds over which it has joint control. Below is a summary of the Bank's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

	2001	2000
Current assets	$ 2,924	$ 3,220
Venture capital investments	25,077	13,454
Other assets	20	26
Current liabilities	76	23
Investment income	1,666	346
Operating and administrative expenses	1,119	4,291
Net gain (loss)	547	(3,945)
Cash flows from (used in):		
Operating activities	(1,006)	(3,471)
Investing activities	(8,588)	(13,955)
Financing activities	9,270	20,533

8. OTHER ASSETS

	2001	2000
Unrealized gains and amounts receivable on derivative financial instruments	$ 216,415	$ 265,818
Accrued benefit asset	37,883	22,174
Unamortized debt issue expenses on long-term notes	1,868	3,738
Other	2,657	3,774
	$ 258,823	$ 295,504

>> Unrealized gains and amounts receivable on derivative financial instruments are receivable from counterparties to derivative contract and generally correspond to foreign currency and other adjustments in the underlying borrowings. Unrealized losses and amounts payable to counterparties under derivative contracts are included in "Other liabilities" (see Note 10) and in "Accrued interest on borrowings".

9. BORROWINGS

>> The Bank issues debt instruments in world capital markets to fund its loan portfolio. All foreign exchange risk is hedged through the use of derivatives. In addition, where appropriate, the Bank enters into interest rate, cross-currency interest rate and equity-linked swap contracts to hedge the related interest rate and equity market risks. The table below shows the outstanding notes as at March 31.

Maturity date	Effective rate	Currency	Nominal amount ('000)	2001	2000
Short-term notes					
2001	4.74% - 5.53%	US dollars	386,000		
		CDN dollars	1,422,750		$ 1,965,781
2002	4.74% - 5.81%	US dollars	610,100		
		CDN dollars	1,658,840	$ 2,604,399	
Total short-term notes				$ 2,604,399	$ 1,965,781

9. BORROWINGS (continued)

Maturity date	Effective rate*	Currency	Principal amount ('000)	2001	2000
Long-term notes					
2001	4.72% — 7.43%	US dollars	15,449		
		Yen	701,390		
		CDN dollars	327,500		$ 363,096
2002	4.57% — 5.60%	US dollars	152,500		
	4,79%	Yen	2,000,000		
	4.36% — 5.03%	CDN dollars	318,000	**$ 573,905**	409,315
2003	4.77% — 6.25%	CDN dollars		**163,500**	168,500
2004	4.67% — 6.10%	CDN dollars		**368,154**	233,500
2005	4,69%	Yen	500,000		
	4.78% — 5.13%	CDN dollars	60,000	**68,384**	96,363
2006	4.56% — 5.65%	CDN dollars		**178,984**	190,400
2007	4,61%	Euro	4,587		
	4.71% — 4.75%	US dollars	15,196		
	4.51% — 6.01%	CDN dollars	188,477	**214,504**	176,574
2008	4.61% — 5.71%	CDN dollars		**105,600**	92,000
2009	4.64% — 5.39%	CDN dollars		**131,950**	70,950
2010	5,82%	US dollars	15,000		
	4.69% — 5.53%	Yen	5,100,000		
	4.72% — 4.95%	CDN dollars	28,000	**129,728**	217,692
2011	4,71%	US dollars	10,000		
	4.54% — 4.65%	Yen	1,500,000		
	4.36% — 5.25%	CDN dollars	65,000	**103,927**	65,000
2012	4.65% — 4.91%	Yen	7,600,000		
	4.70% — 4.83%	CDN dollars	43,000	**144,868**	184,652
2015	4.58% — 4.91%	Yen	10,700,000	**133,723**	248,922
2016	4.68% — 4.70%	Yen	2,200,000	**27,495**	
Total long-term notes				**$ 2,344,722**	$ 2,516,964

** The effective rates on long-term notes are after giving effect to swap contracts when applicable. Information as to the repricing dates of the interest rate swap contracts is included in Note 15.*

>> The preceding table includes $1,745,068 in 2001 and $1,876,964 in 2000 of long-term notes payable which have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of the Bank's floating interest rate loan portfolio.

>> The maturity dates for callable and extendable notes are presented based on their first option date.

9. BORROWINGS (continued)

>> The Bank has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Other notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by the Bank or the noteholders. The type of notes included in the previous table are as follows:

	2001	2000
Interest-bearing notes	**$ 790,160**	$ 822,110
Notes linked to equity indices	**485,298**	325,353
Notes linked to currency rates	**291,454**	408,453
Notes linked to swap rates	**119,867**	195,852
Notes callable prior to maturity	**270,950**	355,565
Notes extendible beyond maturity	**153,000**	163,000
Other structured notes	**233,993**	246,631
	$ 2,344,722	$ 2,516,964

>> As at March 31, 2001 the payment requirements and maturities of long-term notes are as follows:

2002	**$ 573,905**
2003	**163,500**
2004	**368,154**
2005	**68,384**
2006	**178,984**
2007 and later	**991,795**
	$ 2,344,722

10. OTHER LIABILITIES

	2001	2000
Deferred income	**$ 1,420**	$ 2,362
Accrued benefit liability	**78,903**	72,549
Unrealized losses on derivative financial instruments	**41,486**	15,913
Other	**22,960**	23,196
	$ 144,769	$ 114,020

11. SHARE CAPITAL AND STATUTORY LIMITATIONS

Share Capital

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series;

(b) An unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding	2001			2000		
	Number of shares	Amount	Dividend rate	Number of shares	Amount	Dividend rate
Preferred shares						
Class A — Series 1	500,000	$ 50,000	5.595%	500,000	$ 50,000	5.595%
— Series 2	500,000	50,000	6.545%	500,000	50,000	5.215%
— Series 3	500,000	50,000	5.515%	500,000	50,000	5.515%
— Series 4	400,000	40,000	6.270%	400,000	40,000	6.270%
— Series 5	400,000	40,000	6.270%	400,000	40,000	6.270%
— Series 6	650,000	65,000	4.933%			
		295,000			230,000	
Common shares	3,034,000	303,400		3,034,000	303,400	
Total Outstanding Share Capital		**$ 598,400**			$ 533,400	

>> *Class A Preferred Shares* have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro rata basis, as if such dividends had accrued from day-to-day. The dividend rates on Class A Preferred shares are for periods ranging from one to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.230% to 0.375%.

>> During the year ended March 31, 2001, the Bank issued 650,000 Class A - Series 6 preferred shares for cash consideration of $65,000.

Statutory Limitations

>> The aggregate of borrowings and contingent liabilities of the Bank in the form of guarantees given by it may not exceed twelve times the shareholder's equity of the Bank.

>> Moreover, the paid-in capital of the Bank, the contributed surplus and any proceeds that have been prescribed as equity, must not at any time exceed $1.5 billion.

12. INTEREST EXPENSE

	2001	2000
Interest on borrowings	**$ 264,166**	$ 218,224
Security and short-term investment income	**(38,972)**	(28,121)
	$ 225,194	$ 190,103

13. OPERATING AND ADMINISTRATIVE EXPENSES

	2001			2000		
	Financial Services		Consulting Group	Financial Services		Consulting Group
	Loans	Venture Capital		Loans	Venture Capital	
Salaries and staff benefits	$ 79,276	$ 9,365	$ 16,369	$ 68,811	$ 11,438	$ 16,111
Premises and equipment	25,486	868	2,353	23,723	1,015	2,496
Other expenses	54,209	4,468	4,102	51,504	7,088	5,043
	$ 158,971	$ 14,701	$ 22,824	$ 144,038	$ 19,541	$ 23,650

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

>> The amounts set out below represent the fair values of on- and off-balance sheet financial instruments held or issued by the Bank using the valuation methods and assumptions referred to below. The estimated fair value amounts represent approximate amounts at which the instruments could be exchanged between willing parties. However many of the financial instruments lack an available trading market. Therefore, in these cases fair values are estimated using present value and other valuation techniques which are significantly affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

>> The carrying values are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as generally it is the Bank's intention to realize the value of these financial instruments over time by holding them to maturity.

	2001			2000		
	Carrying value	Fair value	Fair value over (under) Carrying value	Carrying value	Fair value	Fair value over (under) Carrying value
Balance Sheet						
Assets						
Cash and short-term investments	$ 605,955	$ 605,955	$ —	$ 493,903	$ 493,903	$ —
Securities (Note 4)	67,808	69,297	1,489	83,752	84,668	916
Loans, net of allowance for credit losses	5,054,254	5,080,582	26,328	4,608,188	4,572,992	(35,196)
Venture capital investments	206,360	283,806	77,446	145,107	278,743	133,636
Other assets	2,657	2,657	—	3,774	3,774	—
	$ 5,937,034	$ 6,042,297	$ 105,263	$ 5,334,724	$ 5,434,080	$ 99,356
Liabilities						
Accounts payable and accrued liabilities	$ 55,626	$ 55,626	$ —	$ 45,045	$ 45,045	$ —
Accrued interest on borrowings	152,698	152,698	—	240,697	240,697	—
Short-term notes	2,604,399	2,604,399	—	1,965,781	1,965,781	—
Long-term notes	2,344,722	2,427,158	82,436	2,516,964	2,615,440	98,476
	$ 5,157,445	$ 5,239,881	$ 82,436	$ 4,768,487	$ 4,866,963	$ 98,476
			$ 22,827			$ 880
Derivative financial instruments (Note 15)	$ 87,077	$ 89,430	$ 2,353	$ 187,098	$ 184,619	$ (2,479)
Total			$ 25,180			$ (1,599)

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

>> Fair values are based on a range of valuation methods and assumptions which are as follows:

>> *Financial instruments valued at carrying value* — The estimated fair value of the following assets and liabilities is assumed to approximate carrying value as the items are short-term in nature:

- Cash and short-term investments
- Other assets
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

>> *Securities* - The fair value of securities is provided in Note 4 to the financial statements.

>> *Loans* - For performing variable rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under *Allowance for credit losses.*

>> *Venture capital investments* - For venture capital investments made during the current year, estimated fair value is assumed to equal the carrying value. For investments in publicly traded companies, fair value is the quoted share price at March 31. The fair value of other investments is estimated using established earnings multiples.

>> *Long-term notes* - The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to the Bank for notes of the same remaining maturity.

>> *Derivative financial instruments* - The fair value of derivative financial instruments is provided in Note 15 to the financial statements.

15. DERIVATIVE FINANCIAL INSTRUMENTS

>> The Bank enters into derivative financial instruments as hedging transactions for the sole purpose of matching its assets and liabilities and hedging market risk exposure. These transactions are designed to reduce the Bank's exposure to mismatches in revenue and expenses resulting from fluctuations in interest rates and foreign exchange.

>> Depending on the circumstances, these transactions may include the following:

Swaps

>> Swaps involve the exchange of cash flow obligations on a specific notional amount, for a predetermined period. *Interest rate swaps* involve exchange of fixed and floating interest payments. *Currency swaps* involve exchange of currencies at specific prices and dates. *Cross-currency interest rate swaps* involve the exchange of both interest and notional amounts in two different currencies. For *equity-linked swaps*, one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates.

Forwards and Futures

>> *Forwards and futures* are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future.

Options

>> *Options* are agreements in which the writer (or the seller) of the option grants the buyer the right, but not the obligation, to buy or sell a specific amount of a currency, commodity or financial instrument at a price agreed upon when the options are arranged. The writer receives a premium for selling this instrument.

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

>> The following table provides the fair value of the Bank's derivatives portfolio as at March 31 as presented by unrealized gains or losses.

	2001			2000		
	Positive	**Negative**	**Net Amount**	Positive	Negative	Net Amount
Derivative financial instruments						
Interest rate swap contracts	**$ 7,385**	**$ 21,199**	**$ (13,814)**	$ 6,896	$ 20,319	$ (13,423)
Equity-linked swap contracts	**70,854**	**41,391**	**29,463**	131,350	1,776	129,574
Forward rate agreements	**295**	**14**	**281**	—	—	—
Cross-currency interest rate swap contracts	**65,402**	**26,649**	**38,753**	100,162	25,241	74,921
Foreign exchange contracts						
Currency forward contracts	**34,747**	**—**	**34,747**	985	2,976	(1,991)
Option contracts	**—**	**—**	**—**	—	4,462	(4,462)
Total fair value	**$ 178,683**	**$ 89,253**	**$ 89,430**	$ 239,393	$ 54,774	$ 184,619
Less impact of master netting agreements	**56,812**	**56,812**	**—**	42,858	42,858	—
Total	**$ 121,871**	**$ 32,441**	**$ 89,430**	$ 196,535	$ 11,916	$ 184,619

>> The fair value of derivatives is determined using various methodologies including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methodologies as appropriate.

Credit risk

>> The notional amounts of financial instruments held by the Bank are not indicative of the credit or market risk exposure associated with the contracts. The risk of loss is related only to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to the Bank in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the positive fair values of transactions that are in an unrealized gain position. The Bank limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and believes it does not have any significant concentrations in any individual financial institution. The Bank continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. The Bank's overall exposure to credit risk on derivative instruments can change substantially within a short period since it is affected by each transaction subject to the arrangement.

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Counterparty Credit Risk Exposure	Counterparty Ratings			
	AAA	AA- to AA+	A to A+	Total
Gross positive replacement cost	**$ 39,534**	**$ 133,148**	**$ 6,001**	**$ 178,683**
Impact of master netting agreements	**(370)**	**(54,766)**	**(1,676)**	**(56,812)**
Replacement cost (after master netting agreements)	**$ 39,164**	**$ 78,382**	**$ 4,325**	**$ 121,871**
Replacement cost (after master netting agreements) — 2000	$ 33,818	$ 153,926	$ 8,791	$ 196,535
Number of counterparties				
March 31, 2001	**3**	**9**	**3**	
March 31, 2000	2	11	2	

>> The following table summarizes the notional amount by terms to maturity or repricing dates and replacement costs on derivative financial instruments:

	Term to maturity or repricing				2001		2000	
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Notional amount	Replacement cost	Notional amount	Replacement cost
	%	%	%	%				
Interest rate contracts								
$CDN payable — fixed	$ 234,000 5.47	$ 53,798 5.74	$ 10,000 5.45	$ 22,195 6.01	**$ 319,993**	**$ —**	$ 442,745	$ 2,107
$CDN receivable — fixed	281,580 5.24	16,000 5.39	—	254,950 5.80	**552,530**	**5,295**	615,646	1,617
$US receivable — fixed	—	—	—	—	**—**	**—**	4,873	22
Basis swaps	1,015,000 n.a.	—	—	—	**1,015,000**	**426**	105,000	2,044
Equity-linked swap contracts	25,939 n.a.	141,000 n.a.	93,360 n.a.	296,940 n.a.	**557,239**	**70,854**	373,574	131,350
Other contracts	— n.a.	—	—	22,195 n.a.	**22,195**	**1,664**	81,195	1,106
	1,556,519	210,798	103,360	596,280	**2,466,957**	**78,239**	1,623,033	138,246
Forward rate agreements	240,000	—	—	—	**240,000**	**295**	—	—
Cross-currency interest rate swap contracts	222,514 n.a.	24,950 n.a.	36,180 n.a.	621,233 n.a.	**904,877**	**65,402**	1,200,049	100,162
Total interest rate contracts	2,019,033	235,748	139,540	1,217,513	**3,611,834**	**143,936**	2,823,082	238,408
Foreign exchange contracts								
Currency forward contracts	952,077 n.a.	—	—	—	**952,077**	**34,747**	614,536	985
Total foreign exchange contracts	952,077				**952,077**	**34,747**	614,536	985
Option contracts	—	—	—	—	**—**	**—**	3,415	—
Total	$2,971,110	$235,748	$139,540	$ 1,217,513	**$ 4,563,911**	**$ 178,683**	$ 3,441,033	$ 239,393
Less impact of master netting agreements	—	—	—	—	**—**	**56,812**	—	42,858
Total	$2,971,110	$235,748	$139,540	$ 1,217,513	**$ 4,563,911**	**$ 121,871**	$ 3,441,033	$ 196,535

n.a. — not applicable or weighted rates are not significant.

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

>> The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

>> Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

>> The rates represent the weighted average interest rates that the Bank has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in U.S. dollars are converted into the Canadian dollar equivalent.

16. CONTINGENT LIABILITIES AND COMMITMENTS

>> As at March 31, 2001:

a) various legal proceedings arising from the normal course of business are pending against the Bank. Management believes that the aggregate liability resulting from these proceedings will not be material.

b) the undisbursed amounts on loans authorized total $636,545. These loan commitments are for an average period of three months ($121,708 in fixed, $514,837 in floating). The effective interest rates on these loan commitments vary from 6.6% to 20.0%. The undisbursed amounts on authorized venture capital investments total $63,472.

c) the future minimum lease commitments under operating leases related to the rental of Bank premises are as follows:

2002	$ 15,865
2003	15,235
2004	14,837
2005	14,565
2006	13,754
2007 - 2021	111,884
	$ 186,140

17. EMPLOYEE FUTURE BENEFITS

>> The Bank maintains defined benefit pension plans (the "Pension Plans") for eligible employees, which provide post-retirement benefits based on number of years of service and average final pay. The Bank also provides life insurance and health care benefits for eligible retirees as well as other employee and retiree benefits (the "Other Plans"). Commencing March 31,1993, post-retirement benefits other than pensions are accounted for on an accrual basis. The effect of this change, which was applied prospectively, resulted in a cumulative liability of $28,800 being recognised in fiscal 1993.

17. EMPLOYEE FUTURE BENEFITS (continued)

>> Pension and other post-retirement expense is included in Salaries and Staff benefits and is as follows:

	Registered Pension Plan	Supplemental Pension Plans	Other Plans
Plan expense (credit)			
Current service cost	$ 10,024	$ 519	$ 2,191
Interest cost on benefit obligation	22,733	1,361	4,554
Expected return on plan assets	(35,025)	(216)	—
Amortization of transitional obligation (asset)	(13,441)	(267)	315
Amortization of net actuarial loss	—	—	19
Expense (credit) for the year ended March 31, 2001	$ (15,709)	$ 1,397	$ 7,079
Expense (credit) for the year ended March 31, 2000	$ (12,513)	$ 3,926	$ 6,891

>> The following tables present, in aggregate, information on a calendar year basis concerning the employee future benefit plans:

	Registered Pension Plan	Supplemental Pension Plans	Other Plans
Change in accrued benefit obligation			
Balance at beginning of year	$ 309,057	$ 18,356	$ 61,672
Current service cost	10,024	519	2,191
Interest cost on benefit obligation	22,733	1,361	4,554
Benefits paid	(15,911)	(403)	(1,921)
Actuarial loss	22,221	6,224	1,775
Balance at end of year	348,124	26,057	68,271
Change in fair value of plan assets			
Balance at beginning of year	$ 445,481	$ 4,084	$ —
Employee contributions[1]	35	—	—
Employer contributions	—	145	461
Actual return on plan assets during the year	44,433	117	—
Benefits paid	(15,911)	(403)	(461)
Balance at end of year	474,038	3,943	—
Surplus (deficit) at end of year	$ 125,914	$ (22,114)	$ (68,271)
Employer contributions after December 31	—	20	150
Unamortized transitional obligation (asset)[2]	(100,809)	(17)	3,249
Unamortized net actuarial loss	12,778	6,324	1,756
Accrued benefit asset (liability) at end of year[3]	$ 37,883	$ (15,787)	$ (63,116)

1 Employees of the Bank are currently not required to contribute to the Pension Plans for current service. The Bank has the ultimate responsibility for ensuring that pension obligations are adequately funded over time. In specific circumstances, employees are allowed to contribute amounts to the Pension Plans for the recognition of years of service that are not already recognized.

2 Transitional balances as at April 1, 2000 and past service costs from amendments to the plans are amortized on a straight-line basis over the active employees' expected average remaining service life. The active employees' expected average remaining service life under the Pension Plans ranges from 6.8 years to 8.5 years. The expected average remaining service life of the active employees covered by the Other Plans is 13 years for all but one of the plans, in which case it is 8.5 years.

3 Net amount recognized in balance sheet as "Other liabilities" or "Other assets", as appropriate.

17. EMPLOYEE FUTURE BENEFITS (continued)

>> Included in the accrued benefit obligation and value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Supplemental Pension Plans	Other Plans
Fair value of plan assets	$ 3,943	$ —
Accrued benefit obligation	26,057	68,271

>> The significant actuarial assumptions adopted in measuring the Bank's accrued benefit obligations (weighted averages) are as follows:

	Registered Pension Plan	Supplemental Pension Plans	Other Plans
Significant actuarial assumptions			
Discount rate at beginning of year	7.30%	7.30%	7.30%
Discount rate at end of year	7.00%	7.00%	7.00%
Expected long-term rate of return on plan assets[1]	8.00%	5.00%	—

1 The expected long-term return on plan assets is calculated using assets valued at fair market value.

>> The average rate of compensation increase is expected to be inflation (assumed to be 3.75%) plus a 1% productivity gain plus an adjustment for merit and promotion.

>> For measurement purposes, medical costs were assumed to increase with inflation, plus a further increase of 3.5% in 2002 graded down by 0.5% each year to 4.75% for 2007 and subsequent years.

18. RELATED PARTY TRANSACTIONS

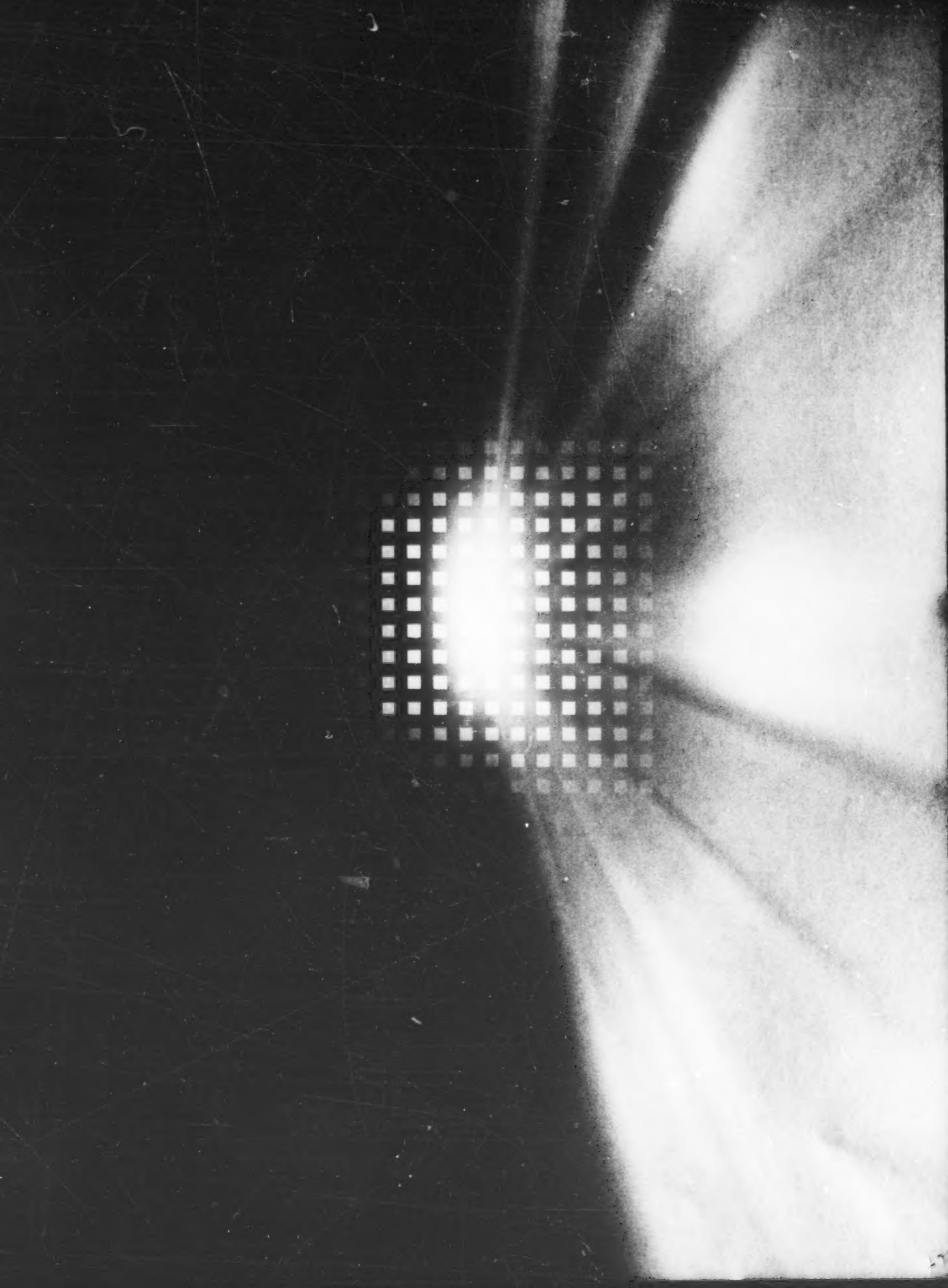
>> The Bank is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Bank entered into transactions with these entities in the normal course of business.

19. SEGMENTED RESULTS OF OPERATIONS

>> The operations of the Bank are grouped into the business segments of Loans, Venture Capital and the Consulting Group. Disclosure of each segment's revenues, expenses and net income is set out in the Statement of Income consistent with the practice in previous years.

20. COMPARATIVE FINANCIAL DATA

>> Certain comparative figures have been reclassified to conform with the presentation adopted in 2001.



FIVE-YEAR OPERATIONAL

OPERATIONAL STATISTICS for the year ended March 31 *($ in thousands)*	**2001**	2000	1999	1998	1997
FINANCIAL SERVICES					
Total financing committed as at March 31					
Amount	**$ 6,353,362**	$5,641,379	$5,090,228	$4,586,083	$4,038,176
Number of customers	**19,884**	18,807	17,923	17,414	16,383
Committed to lending customers as at March 31					
Amount	**$ 6,057,285**	$5,446,309	$4,933,237	$4,461,411	$3,964,865
Number of customers	**19,753**	18,708	17,833	17,335	16,317
Committed to investment customers as at March 31					
Amount	**$ 296,077**	$ 195,070	$ 156,991	$ 124,672	$ 73,311
Number of customers	**131**	99	90	79	66
Total financing authorized					
Number	**6,519**	6,412	6,082	5,815	5,727
Net amount	**$ 1,652,076**	$1,435,288	$1,271,937	$1,234,968	$1,027,104
Lending authorized					
Number	**6,448**	6,350	6,035	5,773	5,696
Net amount	**$ 1,537,914**	$1,372,492	$1,230,130	$1,171,977	$ 997,565
Investments authorized					
Number	**71**	62	47	42	31
Net amount	**$ 114,162**	$ 62,796	$ 41,807	$ 62,991	$ 29,539
FINANCIAL STATISTICS					
Net interest income as a percentage of average loan portfolio	**5.8%**	5.6%	5.6%	5.6%	5.5%
Provision for credit losses as a percentage of average loan portfolio	**2.0%**	2.0%	1.4%	1.3%	1.1%
Operating and administrative expenses as a percentage of average loan portfolio	**3.1%**	3.0%	3.2%	3.0%	3.0%
Loan operations productivity ratio	**52.6%**	54.7%	57.4%	53.3%	54.4%
BDC CONSULTING GROUP					
Revenue from activities	**$ 17,724**	$ 19,396	$ 17,823	$ 21,458	$ 19,758
Cost recovery rate (prior to 1998 excludes long-term accruals)	**78%**	82%	77%	69%	59%

FINANCIAL INFORMATION *($ in thousands)*	**2001**	2000	1999	1998	1997
STATEMENT OF INCOME for the year ended March 31					
Net income (excluding Parliamentary appropriation)	**$ 88,322**	$ 101,105	$ 32,784	$ 45,474	$ 43,720
Parliamentary appropriation	**$ —**	$ —	$ —	$ —	$ 6,948
Net income	**$ 88,322**	$ 101,105	$ 32,784	$ 45,474	$ 50,668
Net income (loss)					
Loans	**$ 37,254**	$ 25,320	$ 42,124	$ 50,737	$ 48,424
Venture Capital	**$ 56,168**	$ 80,039	$ (4,124)	$ 4,217	$ 9,948
Consulting Group	**$ (5,100)**	$ (4,254)	$ (5,216)	$ (9,480)	$ (14,652)
Net income (excluding Parliamentary appropriation)	**$ 88,322**	$ 101,105	$ 32,784	$ 45,474	$ 43,720
BALANCE SHEET as at March 31					
Loans, net of allowance for credit losses	**$ 5,054,254**	$4,608,188	$4,248,745	$3,838,305	$3,386,356
Venture capital investments, net of accumulated write-down of investments	**$ 206,360**	$ 145,107	$ 110,298	$ 70,046	$ 41,444
Total assets	**$ 6,225,518**	$5,666,333	$5,098,461	$4,587,989	$4,029,805
Total shareholder's equity	**$ 923,304**	$ 783,826	$ 583,832	$ 507,058	$ 467,594
Total liabilities	**$ 5,302,214**	$4,882,507	$4,514,629	$4,080,931	$3,562,211
Average loan portfolio	**$ 5,194,279**	$4,736,601	$4,281,607	$3,855,662	$3,467,174

BDC SERVICES

>> BDC is structured to offer a variety of flexible and specialized financial products, as well as consulting services to help Canadian small businesses grow and successfully compete in an ever-changing global environment. The Bank's philosophy is to respond to the needs of entrepreneurs with timely and relevant business solutions to ensure their complete satisfaction.

BDC Financial Services

>> The Bank provides a wide range of term loans with flexible repayment conditions. BDC supports companies at every stage of their growth in almost every sector of the economy. For instance, the Bank is very active in the manufacturing and tourism sectors, and maintains a particular focus on knowledge-based and exporting industries. The Bank also responds to the particular needs of growing target markets, such as women, Aboriginal and young entrepreneurs.

>> Subordinate Financing of up to $250,000 is offered to growing businesses with promising market niches. This form of higher-risk financing is a hybrid instrument that has the features of both debt and equity.

BDC Investment Group

>> BDC Investment Group offers venture capital and subordinate financing to meet the special needs of growth-oriented businesses. The Bank provides venture capital especially to early stage high technology companies that have a clear vision of their market, excellent growth potential and are export-oriented. BDC Investment Group also offers fast growing and more mature small businesses subordinate financing above $250,000, which is a unique type of quasi-equity loan.

BDC Consulting Group

>> Through its national network of private sector consultants, BDC Consulting Group offers small business entrepreneurs affordable, customized and effective solutions to enhance their management skills. It also helps entrepreneurs assess, plan and implement winning strategies, especially in the areas of growth, quality, export and e-business. BDC Consulting Group provides solutions that enable growth-minded businesses to take their place in the world economy.

BDC Connex®

>> With the creation of BDC Connex® in 1998, the Bank became the first financial institution in Canada to offer its clients the entire range of its financial products online, such as the Tourism Investment Fund, Global Line of Credit® and Student Business Loans Program. BDC Connex® is the Bank's virtual branch that is readily accessible to small businesses wishing to learn about BDC products and services, as well as to do business online.

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